

STATE OF KANSAS
Department of Administration
Division of Accounts and Reports



COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

July 1, 2005 to June 30, 2006

Duane A. Goossen, Secretary
Robert L. Mackey, Director



STATE OF KANSAS

Department of Administration

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**Secretary
of
Administration**

Robert L. Mackey

**Director
of
Accounts and Reports**

State of Kansas
Fiscal Year 2006 Financial Report
June 30, 2006

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INTRODUCTION

December 29, 2006

The Honorable Kathleen Sebelius, Governor of the State of Kansas
Members of the Legislature and
Citizens of the State of Kansas:

It is my pleasure to submit to you the 53rd Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2006, as provided by Kansas Statutes Annotated (K.S.A.) 75-3735. This Comprehensive Annual Financial Report (CAFR) has been prepared in conformance with generally accepted accounting principles (GAAP). The objective of this is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

This report is presented in three sections. The Introductory Section includes this transmittal letter, the organizational chart and a listing of selected officials. The Financial Section includes the independent auditors' report, Management's Discussion and Analysis, the basic financial statements and notes, the Required Supplementary Information and Other Supplementary Information. The Statistical Section includes unaudited tables and financial trend information.

This report is prepared by the Department of Administration, Division of Accounts and Reports. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. The enclosed information is accurate in all material respects and is reported to present fairly the financial position and activities of the State of Kansas. All necessary disclosures to enable the reader to understand the State's financial activities have been included.

The State's financial statements have been audited by Allen, Gibbs & Houlik, L.C. and Berberich Trahan & Co., P. A., two firms of licensed Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the State of Kansas for the fiscal year ended June 30, 2006, are free of material misstatement. This independent audit was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards here also require the auditor to report on the State of Kansas' internal controls and compliance with legal requirements. A copy of the separately issued Single Audit Report can be obtained from the Legislative Division of Post Audit.

PROFILE OF THE GOVERNMENT

The State government is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court and the District Trial Courts. The State provides a full range of services including education, safety, social services, recreation and transportation. The annual budget serves as the

foundation of the State's financial planning and control. On or before October 1, agencies are required to submit annually or biennially budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However in the case of the regular legislative session immediately following the election of a governor who was elected to the Office of Governor for the first time, that governor must submit the budget report to the Legislature on or before the 21st calendar day of that regular session.

FINANCIAL INFORMATION

Kansas has a centrally maintained computerized double-entry accounting system. Management is responsible for establishing and maintaining an internal control structure to ensure that government assets are protected from loss, theft or misuse, and that adequate data are compiled to prepare meaningful financial statements. Internal accounting controls have been implemented for reasonable, but not absolute, assurance for safeguarding assets and accurately recording financial transactions. "Reasonable assurance" is based upon the premise that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and judgments by management. As a recipient of federal financial assistance, the State is also responsible for implementing internal controls for compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

The State also maintains budgetary restrictions and controls, which are imposed through annual appropriations and limitations, approved by the Legislature. Annual appropriated budgets are adopted for the State General Fund and certain Special Revenue, Capital Project, Enterprise, Internal Service and Trust and Agency funds. The level of budgetary control in the central accounting system is usually established by agency, fund and budget unit. Budgetary control is maintained by mechanisms in the accounting system, which prevents expenditures and firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and reserved and designated fund balances in the financial statements included in this report.

CASH MANAGEMENT

On a daily basis, the State monitors receipts to, and expenditures out of, the State Treasury. It also employs cash flow tools and techniques that maximize revenues without incurring undue risk. The State invests idle funds to match anticipated cash flow needs by using government securities, collateralized bank deposits, and high grade commercial paper to provide safety, liquidity, and yield, in that order. As a cash flow management policy, the State seeks to avoid borrowing from its own idle funds to meet expenditure obligations of the State General Fund.

The State maintains investments in addition to idle moneys. Authorized agencies may make investments independently of the State Treasury pooled cash. Generally the Pooled Money Investment Board (PMIB) acts as agent for these investments. Certain funds, such as Kansas Public Employees Retirement System and the Employment Security Fund, are statutorily exempted from PMIB oversight. Deposits in the Municipal Investment Pool, an investment option established by the 1992 legislature for local governments, are also invested by the PMIB.

RISK MANAGEMENT

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities. In general, the State is self-insured for certain health care claims (prescription drug and dental plus three of eight medical health plan options), State employee workers' compensation, long-term disability, tort liability, personal property, and real estate property losses up to \$500,000 (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles, and a statewide commercial policy on real property valued at \$500,000 or more (except where separate coverage is required by bond covenant). Insurance settlements have not exceeded insurance coverage for the past three fiscal years.

Risk is managed by positively addressing various benefits and liabilities through review, legislation and administration to assure that claims are promptly and correctly adjudicated and that appropriate and fair benefits and liabilities are reflected in the statutes and regulations. Where cost effective and appropriate, such as limiting the impact of a catastrophic occurrence to the State buildings, the State has limited its exposure through high deductible catastrophic loss insurance.

PENSION TRUST FUND OPERATIONS

The Kansas Public Employees Retirement System is an umbrella organization administering three statewide retirement systems under one plan. These systems are Kansas Public Employee Retirement System, Kansas Police and Firemen's Retirement System and Kansas Retirement System for Judges. Further information on State participation in the retirement system can be found in the Notes to the Financial Statements located in the Financial Section.

ACKNOWLEDGEMENTS

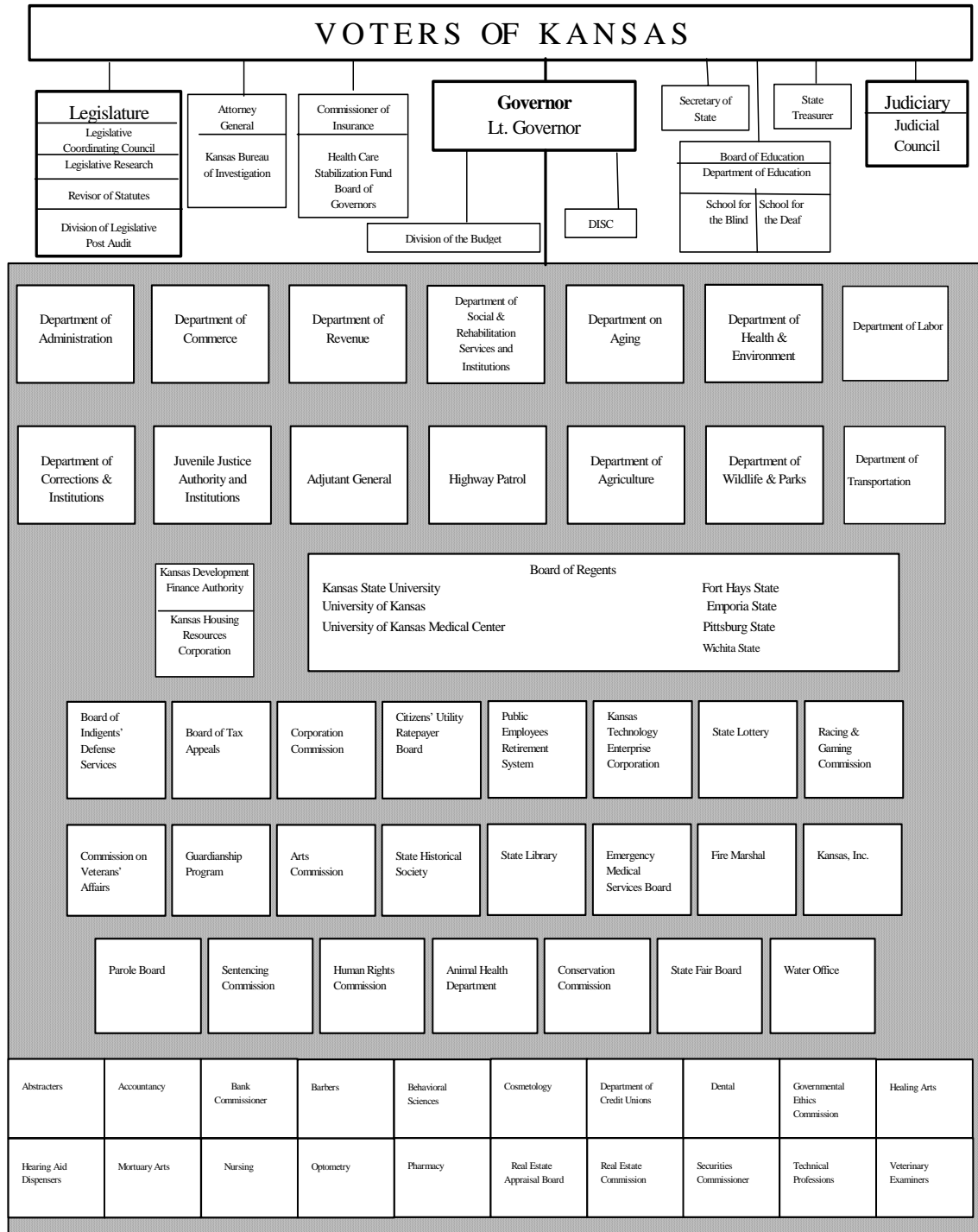
I wish to express my deepest appreciation and thanks to those on my staff responsible for the preparation of this report. It is through their dedicated effort that this report was made possible. I also wish to thank the many other individuals in the State agencies whose contributions made this report possible.

Sincerely,



Robert L. Mackey, Director
Division of Accounts and Reports

State of Kansas
Organizational Chart
June 30, 2006



State of Kansas
List of Selected Officials
June 30, 2006

Executive Branch

Governor
Kathleen Sebelius

Lieutenant Governor
John E. Moore

Secretary of State
Ron Thornburgh

State Treasurer
Lynn Jenkins

Attorney General
Phill Kline

*Commissioner of
Education*
Bob Corkins

*Commissioner of
Insurance*
Sandy Praeger

Legislative Branch

*Speaker of the House of
Representatives*
Doug Mays

*Speaker Pro Tempore of
the House of
Representatives*
Ray Merrick

President of the Senate
Stephen R. Morris

*Vice President of the
Senate*
John Vratil

*Chief Clerk of the House of
Representatives*
Janet E. Jones

Secretary of Senate
Pat Saville

*Legislative Coordinating
Council*
Doug Mays

Legislative Research
Alan Conroy

Judicial Branch

Supreme Court of Kansas
Chief Justice
Kay McFarland

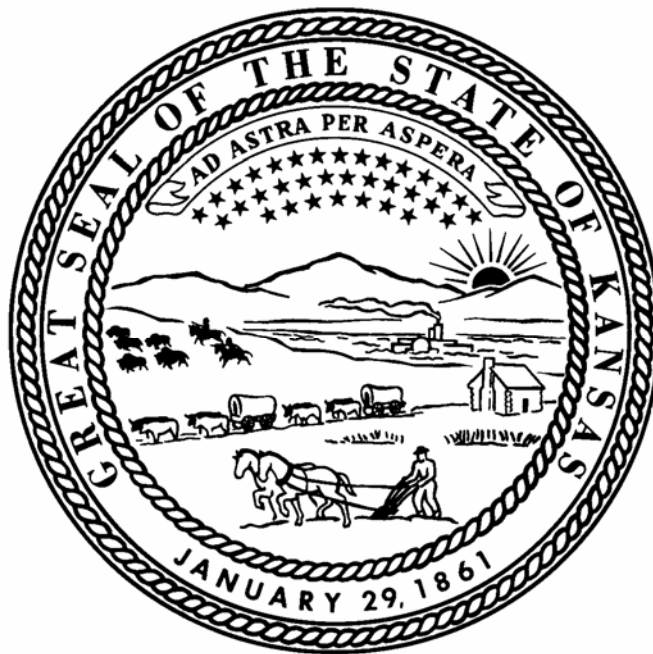
Justices
Donald L. Allegrucci
Carol A. Beier
Robert E. Davis
Eric S. Rosen
Marla J. Luckert
Lawton R. Nuss

Court of Appeals
Chief Judge
Gary W. Rulon

Judicial Council
Executive Director
Randy M. Hearrell

Judicial Administrator
Howard P. Schwartz

FINANCIAL
SECTION



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INDEPENDENT AUDITORS' REPORT

Legislative Post Audit Committee
Kansas State Legislature
State of Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (State), as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the various component units of the six state universities which represent 33 percent and 27 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities in the aggregate discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provides a reasonable basis for our opinions.

In our opinion based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2006 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 5 to 15 and budgetary comparison, and the information needed to support the modified approach for infrastructure reporting on pages 95 through 103 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Allen, Gibbs & Houlik, L.L.C.

December 30, 2006
Wichita, Kansas

Berberich Trahan & Co., P.A.

December 30, 2006
Topeka, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the State of Kansas Comprehensive Annual Financial Report (CAFR) is provided for readers of the financial statements for the fiscal year ended June 30, 2006. This information is to be used in conjunction with the additional information furnished in the preceding letter of transmittal and with the financial statements that follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Government-wide highlights:

- The assets of the State exceeded its liabilities at fiscal year ending June 30, 2006 by \$10.5 billion (presented as "net assets"). Of this amount, \$1.3 billion was reported as unrestricted net assets, which represents the amount available to be used to meet ongoing obligations to citizens and creditors.
- Total net assets increased by \$463 million (4.6% increase) in fiscal year 2006. Net assets of governmental activities increased by \$264 million (2.8% increase), and net assets of the business-type activities increased \$199.2 million (25.8% decrease).

Fund highlights:

- For fiscal year 2006, the governmental funds reported a combined ending fund balance of \$1,360 million, a increase of \$274 million in comparison with the prior year. Of the total amount, \$718.6 million represents the fund balance of the Transportation Fund. There is \$104 million in the "unreserved fund balances". The reserved balances of \$1,256 million include the reserve for advances to other funds of \$179 million and the reserve for encumbrances of \$1,040 million.

Long-term debt:

- The State's total long-term debt obligation showed a net increase of \$1,169 million (28.7%) during the current year. This increase was primarily due to the increase of \$1,052 million in revenue bonds, \$59.1 million in STAR bonds and \$57.8 million in other long-term obligations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Kansas basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *Government-wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *Government-wide Financial Statements* provide a broad view of operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the financial position to assist in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This method is similar to those used by most businesses and takes into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of State programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category, including education, general government, health services, judiciary services, museums, natural resources, public safety, defense, regulatory services, social services, and transportation.

Business-type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services.

Discretely Presented Component Units – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above.

Financial statements of the individual component units can be found in the combining statements. Addresses and other additional information about component units are presented in the notes to the financial statements. The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government, reporting the operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds financial statements are:

Governmental Funds Financial Statements - Most of the basic services provided by the State are financed through governmental type funds. Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide

State of Kansas
Management's Discussion and Analysis
June 30, 2006

financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. This information may be helpful in evaluating the government's near-term financial requirements. This approach is known as the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of State finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The State has five governmental funds considered major funds for presentation purposes. Each major fund is presented in a separate column in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The five governmental funds are – the General Fund, the Transportation Fund, the Transportation-Capital Projects Fund, the Health Policy Authority Fund, and the Social and Rehabilitation Services Fund. The basic governmental funds financial statements can be found immediately following the government-wide statements.

Proprietary Funds Financial Statements – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The State's major proprietary funds for presentation purposes are the Unemployment Insurance Fund (within the Department of Labor), the Water Pollution Control and Public Water Supply Revolving Loan Funds (within the Department of Health and Environment) and the Health Care Stabilization Fund.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

Fiduciary Funds Financial Statements – These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The fiduciary funds are the Kansas Public Employees Retirement Fund, the Investment Trust Fund (which accounts for the transactions, assets, liabilities and fund equity of the external investment pool), The College Savings Program (a private purpose trust fund) and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals). Individual fund detail can be found in the combining financial statements described below.

The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which consists of schedules and related notes. Schedules include budgetary comparisons for the major funds and the Kansas Department of Transportation modified approach explanation. Comparisons can be made between the original budget, final budget, and actual revenues and expenditures. This section also includes in the notes reconciliation between budgetary basis and the accrual basis for major funds as presented in the governmental funds financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the financial position of a government. The combined net assets of the State (government and business-type activities) totaled \$10.5 billion at the end of 2006, compared to \$10.1 billion at the end of the previous year, an increase of 4.6%.

The largest portion of net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Kansas
Management's Discussion and Analysis
June 30, 2006

State of Kansas Net Assets – Primary Government
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 2,865,345	\$ 2,668,896	\$ 1,894,215	\$ 1,628,325	\$ 4,759,560	\$ 4,297,221
Capital assets	10,967,940	10,649,935	391	247	10,968,331	10,650,182
Other assets	16,292	14,625	18,749	16,719	35,041	31,344
Total assets	<u>13,849,577</u>	<u>13,333,456</u>	<u>1,913,355</u>	<u>1,645,291</u>	<u>15,762,932</u>	<u>14,978,747</u>
Non-current liabilities	2,633,452	2,368,573	876,828	812,184	3,510,280	3,180,757
Other liabilities	1,665,047	1,677,861	65,145	60,984	1,730,192	1,738,845
Total liabilities	<u>4,298,499</u>	<u>4,046,434</u>	<u>941,973</u>	<u>873,168</u>	<u>5,240,472</u>	<u>4,919,602</u>
Invested in capital assets, net of related debt	8,144,626	8,435,125	388	247	8,145,014	8,435,372
Restricted	97,386	89,640	950,950	766,234	1,048,336	855,874
Unrestricted	1,309,066	762,257	20,044	5,642	1,329,110	767,899
Total net assets	<u>\$ 9,551,078</u>	<u>\$ 9,287,022</u>	<u>\$ 971,382</u>	<u>\$ 772,123</u>	<u>\$ 10,522,460</u>	<u>\$ 10,059,145</u>

An additional portion of net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the ongoing obligations to citizens and creditors. Internally imposed designations of resources are not represented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

State of Kansas Net Assets – Component Units
(expressed in thousands)

	Component Units	
	2006	2005
Current assets	\$ 2,986,330	\$ 2,895,862
Capital assets	1,452,047	1,286,753
Other assets	63,466	23,031
Total assets	<u>4,501,843</u>	<u>4,205,646</u>
Non-current liabilities	857,248	863,297
Other liabilities	484,980	466,595
Total liabilities	<u>1,342,228</u>	<u>1,329,892</u>
Invested in capital assets, net of related debt	949,929	2,408,580
Restricted	1,854,593	266,710
Unrestricted	355,093	200,464
Total net assets	<u>\$ 3,159,615</u>	<u>\$ 2,875,754</u>

State of Kansas
Management's Discussion and Analysis
June 30, 2006

Changes in Net Assets – Primary Government

Net assets increased by \$463 million or 4.6%. Approximately 58.2% of the total revenue came from taxes, while 27.7% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 11.6% of the total revenues. Expenses cover a range of services. The largest expenses of total expenses were for education (41.3%), human resources (28.1%), and general government (9.3%).

State of Kansas Changes in Net Assets – Primary Government
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 646,238	\$ 545,652	\$ 633,742	\$ 590,788	\$ 1,279,980	\$ 1,136,440
Operating grants and contributions	2,791,988	2,653,128	4,427	10,342	2,796,415	2,663,470
Capital grants and contributions	246,517	255,911	20,799	24,080	267,316	279,991
General revenues:						
Taxes						
Property taxes	548,725	666,698	0	0	548,725	666,698
Income and inheritance taxes	2,866,019	2,385,369	0	0	2,866,019	2,385,369
Sales and excise taxes	2,789,933	2,660,026	0	0	2,789,933	2,660,026
Gross receipts taxes	132,928	127,336	0	0	132,928	127,336
Investment earnings	61,617	26,401	37,446	29,507	99,063	55,908
Other revenue	244,009	275,320	35,972	55,757	279,981	331,077
Total revenues	<u>10,327,974</u>	<u>9,595,841</u>	<u>732,386</u>	<u>710,474</u>	<u>11,060,360</u>	<u>10,306,315</u>
Expenses:						
General government	975,416	1,215,280	0	0	975,416	1,215,280
Human resources	2,979,056	3,124,978	0	0	2,979,056	3,124,978
Education	4,378,010	3,393,376	0	0	4,378,010	3,393,376
Public safety	583,340	514,904	0	0	583,340	514,904
Agriculture and natural resources	98,116	93,528	0	0	98,116	93,528
Highways and other transportation	893,582	679,952	0	0	893,582	679,952
Health and environment	197,884	189,908	0	0	197,884	189,908
Economic Development	3,780	3,293	0	0	3,780	3,293
Water pollution and safety	0	0	33,995	30,499	33,995	30,499
Health care stabilization	0	0	32,500	39,897	32,500	39,897
Employment security	0	0	253,055	280,644	253,055	280,644
Workers' compensation	0	0	4,888	2,273	4,888	2,273
Lottery	0	0	167,623	145,496	167,623	145,496
Intergovernmental transfer program	0	0	1,084	9,287	1,084	9,287
Transportation revolving fund	0	0	1,145	0	1,145	0
Total expenses	<u>10,109,184</u>	<u>9,215,219</u>	<u>494,290</u>	<u>508,096</u>	<u>10,602,329</u>	<u>9,723,315</u>
Increase (decrease) in net assets before transfers	218,790	380,622	238,096	202,378	456,886	583,000
Transfers	<u>66,868</u>	<u>77,383</u>	<u>(66,868)</u>	<u>(77,383)</u>	<u>0</u>	<u>0</u>
Change in net assets	285,658	458,005	171,228	124,995	456,886	583,000
Net assets, beginning of year	9,287,022	8,829,017	772,123	647,128	10,059,145	9,476,145
Revisions to beginning net assets	<u>(21,602)</u>	<u>0</u>	<u>28,031</u>	<u>0</u>	<u>6,429</u>	<u>0</u>
Net assets, beginning of year (restated)	9,265,420	8,829,017	800,154	647,128	10,065,574	9,476,145
Net assets, end of year	<u>\$ 9,551,078</u>	<u>\$ 9,287,022</u>	<u>\$ 971,382</u>	<u>\$ 772,123</u>	<u>\$ 10,522,460</u>	<u>\$ 10,059,145</u>

State of Kansas
Management's Discussion and Analysis
June 30, 2006

Changes in Net Assets – Component Units

Component unit net assets increased by \$283.9 million or 9.9%. Approximately 3.8% of the total revenue came from taxes, while 16.2% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 58.3% of the total revenues. Expenses cover a range of services and are shown below by component unit below.

State of Kansas Changes in Net Assets – Component Unit
(expressed in thousands)

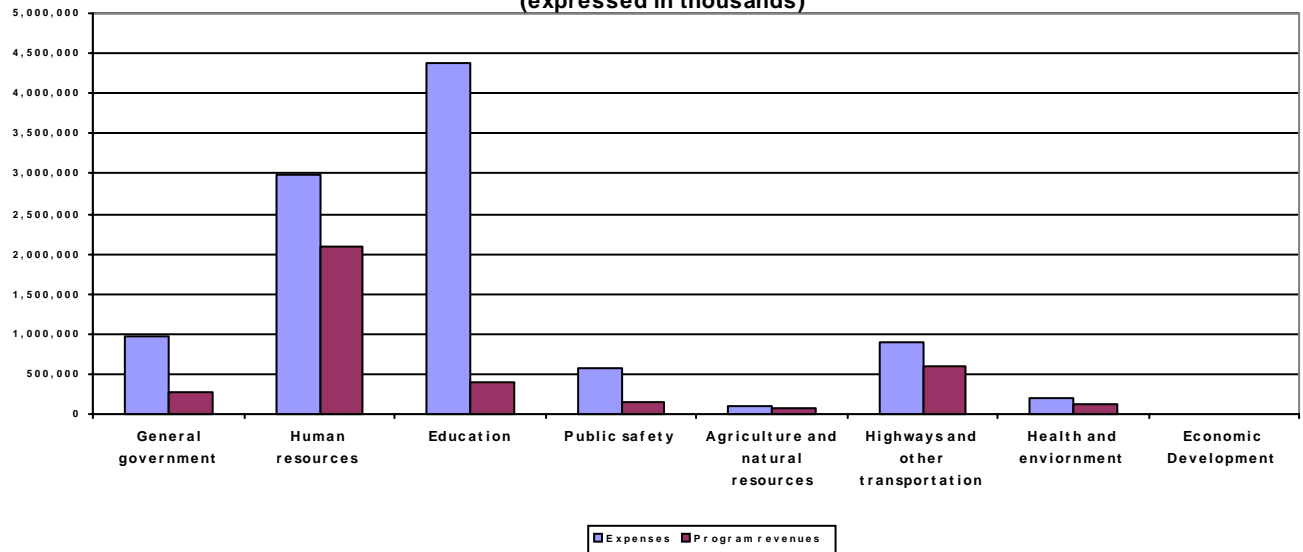
	Component Units	
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 1,205,503	\$ 1,036,351
Operating grants and contributions	333,621	321,051
Capital grants and contributions	368	181
General revenues:		
Taxes		
Sales and excise taxes	1	14
Gross receipts taxes	907	895
Investment earnings	76,801	42,226
Other revenue	450,027	1,162,623
Total revenues	<u>2,067,228</u>	<u>2,563,341</u>
Expenses:		
Kansas Development Finance Authority	1,325	1,184
Kansas Technology Enterprise Corp.	13,845	14,305
State University System	1,647,723	2,272,497
Kansas Housing Resources Corp.	67,890	65,606
Total expenses	<u>1,730,783</u>	<u>2,353,592</u>
Change in net assets	336,445	209,749
Net assets, beginning of year	2,875,754	2,724,873
Revisions to beginning net assets	<u>(52,584)</u>	<u>(58,868)</u>
Net assets, beginning of year (restated)	<u>2,823,170</u>	<u>2,666,005</u>
Net assets, end of year	<u>\$ 3,159,615</u>	<u>\$ 2,875,754</u>

State of Kansas
Management's Discussion and Analysis
June 30, 2006

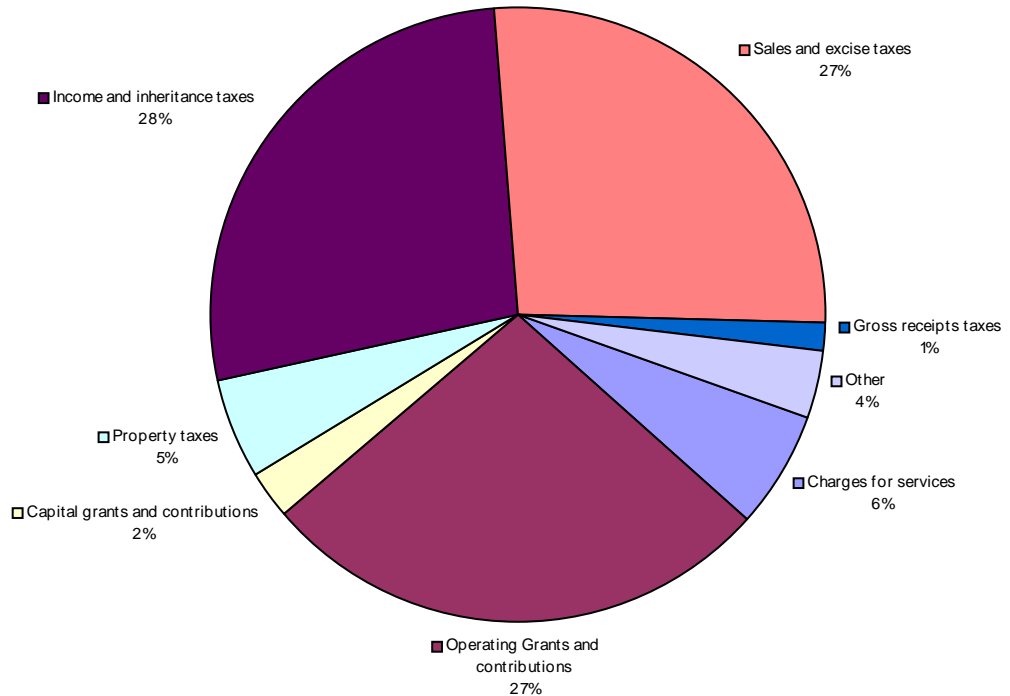
Governmental Activities

Governmental activities increased net assets by \$264 million in fiscal year 2006. For the State's governmental activities a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

Expenses and Program Revenues - Governmental Activities
Fiscal Year Ended June 30, 2006
(expressed in thousands)

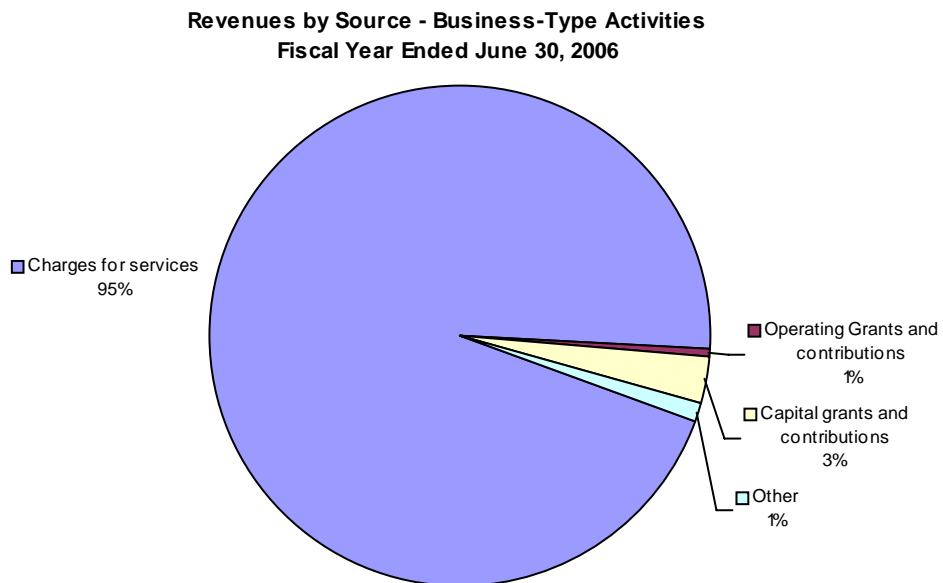
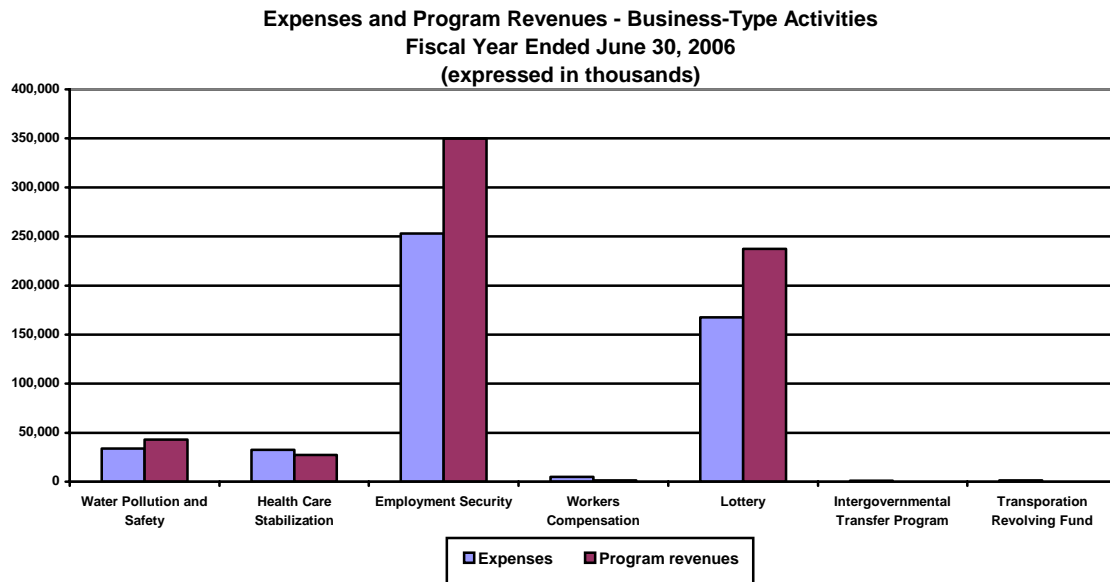


Revenues by Source - Governmental Activities
Fiscal Year Ended June 30, 2006



Business-Type Activities

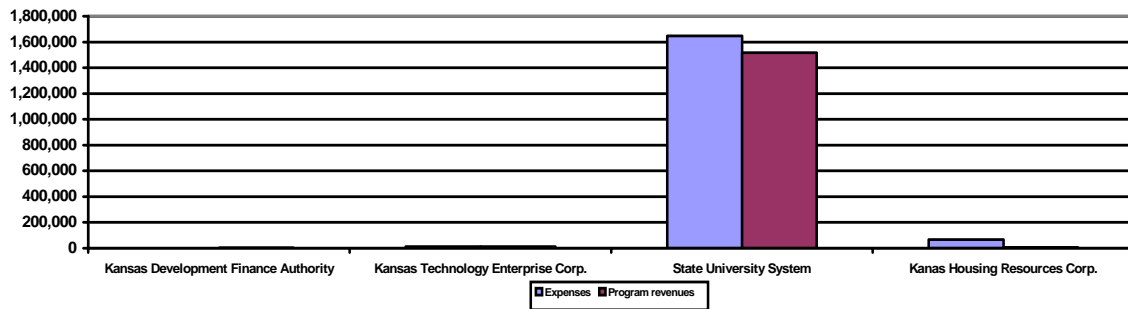
The State's business-type activities increased the net assets of the State by \$199.3 million. For the State's business-type activities a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:



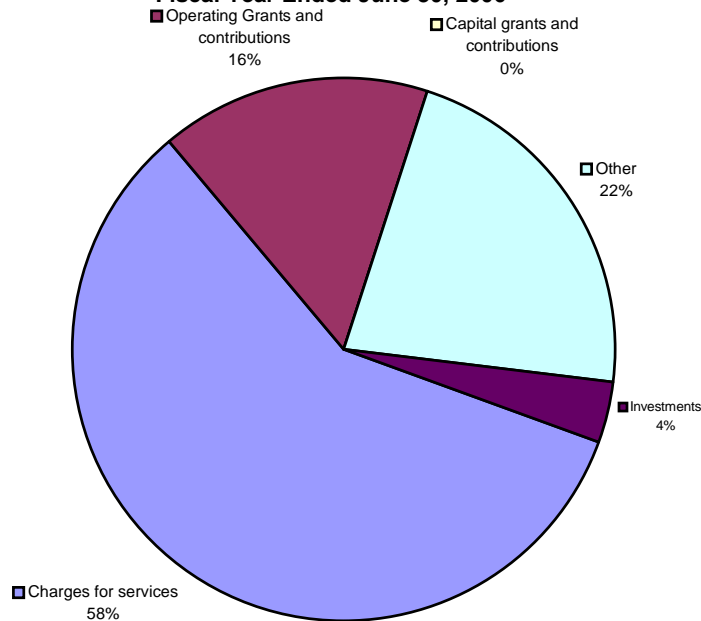
Component Units

The State's component units increased the net assets of the State by \$283.9 million. For the State's component units a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

Expenses and Program Revenues - Component Units
Fiscal Year Ended June 30, 2006
(expressed in thousands)



Revenues by Source - Component Units
Fiscal Year Ended June 30, 2006



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

For fiscal year 2006, the governmental funds reported a combined ending fund balance of \$1,360 million, an increase of \$274 million in comparison with the prior year. Part of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior fiscal year in the amount of \$1,040 million and for advances in the amount of \$179 million.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$650 million, while the total fund balance reached \$672 million. As a measure of liquidity of the General Fund, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 13.4 percent of total General Fund expenditures, while total fund balance represents 13.9 percent of that same amount. The fund balance in the General Fund increased by \$359 million during the current fiscal year.

Proprietary Funds

Proprietary funds provide the same type of information found in the government-wide financial statements.

As discussed in the business-type activities above, the State's net assets increased by \$199.3 million as a result of operations in the proprietary funds. This resulted from a \$142.4 million increase in net assets by the Unemployment Insurance Fund and an increase of net assets of \$25.9 million by the State's program for making loans to local government units for water pollution and public water supply projects.

Component Unit Funds

Although legally separate from the State, component units are financially accountable to the State, or their relationships are such that exclusion would cause the State's financial statements to be misleading or incomplete. Component units are reported in its own column on the financial statements.

The State's component unit net assets increased by \$283.9 million. Most of this increase resulted from the State University System with an increase of \$281.8 million while the other three component units accounted for \$2 million increase in net assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences existed between the original budget and the final budget. Revenue estimates were raised by approximately \$150.8 million and expenditure estimates were raised by approximately \$162.5 million. The original estimates provided for an excess of revenues over expenditures of a \$125.1 million. The final budget provided for an excess of a negative \$113.4 million of revenues over expenditures. Subsequently, fiscal year 2006 was closed with an excess of revenues over expenditures of \$288 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

State investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$11 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads and bridges.

The Kansas Department of Transportation used the modified approach for valuing their infrastructure. The roadways' conditions are assessed using a pavement management system. The bridges' conditions are assessed using the Pontis Bridge Management System. The conditions for the roadways and the bridges exceeded the Department's policy for minimum condition levels.

The total increase in the investment in capital assets for its governmental and business-type activities for the current fiscal year was about 3 percent in terms of net book value. The majority of capital asset expenditures were used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$56.9 million. Additional information on the capital assets can be found in Note III of the notes to the financial statements of this report.

Debt Administration

The State of Kansas does not have the statutory authority to issue general obligation bonds. The Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

KDFA is a public body politic and corporate, constituting an independent instrumentality of the State of Kansas. It was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

The total long-term bond debt obligations increased by \$1,111 million during the current fiscal year. The key factor in this increase was the issuance of \$209.5 million for Department of Administration's Comprehensive Transportation Program, KDFA Series 2006A, \$190.7 million in Sales Tax Limited Obligation Bonds, \$118.9 million in Water Pollution Control Revolving Loan Fund, KDFA Series 2005 CW I and II, and \$32.7 million in Transportation Revolving Funds, KDFA Series 2005 TR.

Additional information on long-term debt obligations can be found in Note III of the notes to the financial statements of this report.

ECONOMIC FACTORS

According to the Kansas Department of Human Resources *Kansas Labor Market Information News Release* for July 2006, employment for nonfarm jobs in the State of Kansas for June 2006 is improving. Compared to June 2005, employment increased by 18,700 jobs for a total of 1.4 million nonfarm jobs. Kansas has had 12 consecutive months of over-the-year job growth. The unemployment rate was 4.7 percent for June 2006, compared to 5.3 percent in June 2005.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of State finances for all of Kansas's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate State accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Robert L. Mackey, Director of Accounts and Reports
900 S.W. Jackson, Room 351S
Landon State Office Building
Topeka, KS 66612-1248

Financial Statements

State of Kansas
Financial Statements
June 30, 2006

State of Kansas
Government Wide - Statement of Net Assets
June 30, 2006
(expressed in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Cash and cash equivalents	\$ 1,401,801	\$ 171,390	\$ 1,573,191	\$ 393,431
Investments	598,997	255,111	854,108	1,849,263
Receivables (net)	707,470	768,355	1,475,825	256,169
Due from primary government				
Investment in direct financing leases, due within one year	0	0	0	15,625
Investment in direct financing leases, due in more than one year	0	0	0	233,190
Internal balances	1,754	(1,754)	0	0
Inventories	24,212	1,681	25,893	12,890
Other current assets	0	0	0	69,734
Restricted cash and cash equivalents	131,111	618,044	749,155	56,030
Restricted investments	0	81,388	81,388	99,998
Capital assets (net of accumulated depreciation)	1,358,275	391	1,358,666	1,452,047
Infrastructure	9,609,665	0	9,609,665	0
Other non-current assets	16,292	18,749	35,041	63,466
Total assets	13,849,577	1,913,355	15,762,932	4,501,843
LIABILITIES				
Accounts payable and other current liabilities	679,665	20,153	699,818	292,718
Due to component unit				
Lease revenue bonds payable, due within one year	15,625	0	15,625	0
Lease revenue bonds payable, due in more than one year	233,190	0	233,190	0
Deferred revenue	22,475	0	22,475	90,310
Bonds payable on demand	755,115	0	755,115	0
Noncurrent liabilities				
Due within one year	192,167	44,992	237,159	101,952
Due in more than one year	2,379,089	704,810	3,083,899	857,248
Claims and judgements	21,173	172,018	193,191	0
Total liabilities	4,298,499	941,973	5,240,472	1,342,228
NET ASSETS				
Invested in capital assets, net of related debt	8,144,626	391	8,145,017	949,929
Restricted for:				
Capital projects	0	0	0	71,654
Debt service	97,386	16,894	114,280	28,828
Other purposes	0	934,056	934,056	1,754,111
Unrestricted	1,309,066	20,041	1,329,107	355,093
Total net assets	\$ 9,551,078	\$ 971,382	\$ 10,522,460	\$ 3,159,615

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

State of Kansas

Government Wide - Statement of Activities

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
1 Primary government:				
2 Governmental activities:				
3 General government	\$ 975,416	\$ 201,643	\$ 73,326	\$ 0
4 Human resources	2,979,056	154,190	1,936,727	44
5 Education	4,378,010	6,340	383,840	0
6 Public safety	583,340	24,468	125,170	0
7 Agriculture and natural resources	98,116	46,446	17,087	0
8 Highways and other transportation	893,582	185,240	154,522	246,473
9 Health and environment	197,884	27,911	101,316	0
10 Economic development	3,780	0	0	0
11 Total governmental activities	<u>10,109,184</u>	<u>646,238</u>	<u>2,791,988</u>	<u>246,517</u>
12 Business-type activities:				
13 Water pollution and safety	33,995	22,193	0	20,799
14 Health care stabilization	32,500	27,402	0	0
15 Employment security	253,055	345,492	4,427	0
16 Workers' compensation	4,888	1,182	0	0
17 Lottery	167,623	237,270	0	0
18 Intergovernmental transfer program	1,084	133	0	0
19 Transportation revolving loans	1,145	70	0	0
20 Total business-type activities	<u>494,290</u>	<u>633,742</u>	<u>4,427</u>	<u>20,799</u>
21 Total primary government	<u><u>\$ 10,603,474</u></u>	<u><u>\$ 1,279,980</u></u>	<u><u>\$ 2,796,415</u></u>	<u><u>\$ 267,316</u></u>
22				
23 Component units:				
24 Kansas Development Finance Authority	\$ 1,325	\$ 1,854	\$ 0	\$ 0
25 Kansas Technology Enterprise Corporation	13,845	310	13,514	0
26 State University System	1,647,723	1,199,382	318,803	368
27 Kansas Housing Resources Corporation	67,890	3,957	1,304	0
28 Total component units	<u><u>\$ 1,730,783</u></u>	<u><u>\$ 1,205,503</u></u>	<u><u>\$ 333,621</u></u>	<u><u>\$ 368</u></u>

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Units	
				1
				2
\$ (700,447)	\$ 0	\$ (700,447)	\$ 0	3
(888,095)	0	(888,095)	0	4
(3,987,830)	0	(3,987,830)	0	5
(433,702)	0	(433,702)	0	6
(34,583)	0	(34,583)	0	7
(307,347)	0	(307,347)	0	8
(68,657)	0	(68,657)	0	9
(3,780)	0	(3,780)	0	10
<u>(6,424,441)</u>	<u>0</u>	<u>(6,424,441)</u>	<u>0</u>	11
				12
0	8,997	8,997	0	13
0	(5,098)	(5,098)	0	14
0	96,864	96,864	0	15
0	(3,706)	(3,706)	0	16
0	69,647	69,647	0	17
0	(951)	(951)	0	18
0	(1,075)	(1,075)	0	19
0	164,678	164,678	0	20
<u>\$ (6,424,441)</u>	<u>\$ 164,678</u>	<u>\$ (6,259,763)</u>	<u>\$ 0</u>	21
				22
				23
\$ 0	\$ 0	\$ 0	\$ 529	24
0	0	0	(21)	25
0	0	0	(129,170)	26
0	0	0	(62,629)	27
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (191,291)</u>	28
General revenues:				
Taxes:				
Property tax	\$ 548,725	\$ 0	\$ 548,725	\$ 0
Income and inheritance tax	2,866,019	0	2,866,019	0
Sales and excise tax	2,789,933	0	2,789,933	1
Gross receipts tax	132,928	0	132,928	907
Investment earnings	61,617	37,446	99,063	76,801
Other revenue	244,009	35,972	279,981	450,027
Transfers	66,868	(66,868)	0	0
Total general revenues	<u>6,710,099</u>	<u>6,550</u>	<u>6,716,649</u>	<u>527,736</u>
Change in net assets	<u>285,658</u>	<u>171,228</u>	<u>456,886</u>	<u>336,445</u>
Net assets - beginning	9,287,022	772,123	10,059,145	2,875,754
Revisions to beginning net assets	<u>(21,602)</u>	<u>28,031</u>	<u>6,429</u>	<u>(52,584)</u>
Net assets - beginning (restated)	<u>9,265,420</u>	<u>800,154</u>	<u>10,065,574</u>	<u>2,823,170</u>
Net assets - ending	<u>\$ 9,551,078</u>	<u>\$ 971,382</u>	<u>\$ 10,522,460</u>	<u>\$ 3,159,615</u>

State of Kansas
Financial Statements
June 30, 2006

State of Kansas
Balance Sheet - Governmental Funds
June 30, 2006
(expressed in thousands)

	General	Social and Rehabilitation	Transporta- tion	Health Policy Authority	Transporta- tion-Capital Projects	Other Governmental	Total Governmental
ASSETS							
Cash and cash equivalents	\$ 786,426	\$ 93,441	\$ 77,267	\$ 18,063	\$ 0	\$ 399,221	\$ 1,374,418
Investments	0	0	510,939	0	0	88,058	598,997
Receivables, net	416,054	90,333	74,693	10,899	0	104,959	696,938
Due from other funds	16,288	0	32,499	0	0	14,287	63,074
Inventories	6,232	0	17,601	0	0	0	23,833
Advances to other funds	0	80	92,689	0	0	80,529	173,298
Restricted cash and cash equivalents	0	0	0	0	0	131,111	131,111
Total assets	\$ 1,225,000	\$ 183,854	\$ 805,688	\$ 28,962	\$ 0	\$ 818,165	\$ 3,061,669
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and other current liabilities	\$ 306,660	\$ 117,457	\$ 49,788	\$ 19,893	\$ 0	\$ 155,324	\$ 649,122
Due to other funds	44,475	210	0	0	0	652	45,337
Deferred revenue	31,904	90	37,338	0	0	7,172	76,504
Advances from other funds	170,049	2,414	0	0	0	3,068	175,531
Bonds payable on demand	0	0	0	0	755,115	0	755,115
Total liabilities	553,088	120,171	87,126	19,893	755,115	166,216	1,701,609
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	0	13,489	13,489
Inventory	6,232	0	17,601	0	0	0	23,833
Encumbrances	16,154	18,045	851,857	4,152	0	149,569	1,039,777
Advances to other funds	0	80	92,689	0	0	86,002	178,771
Unreserved, reported in:							
General Fund	649,526	0	0	0	0	0	649,526
Social and Rehabilitation	0	45,558	0	0	0	0	45,558
Transportation	0	0	(243,585)	0	0	0	(243,585)
Health Policy Authority	0	0	0	4,917	0	0	4,917
Transportation - Capital Projects	0	0	0	0	(755,115)	0	(755,115)
Special Revenue Funds	0	0	0	0	0	195,214	195,214
Capital Project Funds	0	0	0	0	0	84,338	84,338
Debt service	0	0	0	0	0	123,337	123,337
Total fund balance	671,912	63,683	718,562	9,069	(755,115)	651,949	1,360,060
Total liabilities and fund balance	\$ 1,225,000	\$ 183,854	\$ 805,688	\$ 28,962	\$ 0	\$ 818,163	\$ 3,061,669

The notes to the financial statements are an integral part of this statement.

(Continued)

State of Kansas
Financial Statements
June 30, 2006

State of Kansas
Balance Sheet - Governmental Funds - Continued
June 30, 2006
(expressed in thousands)

	<u>Total Governmental</u>
Reconciliation to the Statement of Net Assets:	
Total fund balance from previous page	\$ 1,360,060
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Infrastructure	9,609,665
Capital assets	1,266,994
Other non-current assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	16,292
Deferred revenue (not on statement of net assets)	54,030
Accrued Interest	(24,026)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Long term debt	(2,349,615)
Compensated absences	(107,752)
Due to component unit (lease revenue bonds payable)	(248,815)
Internal Service Funds: the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(25,755)
Net assets of governmental activities as reported on the Statement of Net Assets.	<u><u>\$ 9,551,078</u></u>

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

Statement of Revenues, Expenditures, and Changes in Fund Balances -

Governmental Funds

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	General	Social and Rehabilitation	Transporta- tion	Health Policy Authority	Transporta- tion-Capital Projects	Other Governmental	Total Governmental
Revenues:							
Property tax	\$ 512,721	\$ 0	\$ 0	\$ 0	\$ 0	\$ 43,164	\$ 555,885
Income and inheritance tax	2,859,975	0	0	0	0	13,232	2,873,207
Sales and excise tax	2,396,655	2,449	382,716	0	0	34,350	2,816,170
Gross receipts tax	113,981	0	0	0	0	18,957	132,938
Charges for services	48,399	85,035	183,356	56,313	0	282,461	655,564
Operating grants	0	457,009	140,524	1,442,884	0	737,741	2,778,158
Capital grants	0	0	258,480	0	0	5,422	263,902
Investment earnings	51,358	470	0	348	0	9,449	61,625
Other revenues	11,979	(3,892)	6,150	96,853	0	152,647	263,737
Total revenues	<u>5,995,068</u>	<u>541,071</u>	<u>971,226</u>	<u>1,596,398</u>	<u>0</u>	<u>1,297,423</u>	<u>10,401,186</u>
Expenditures:							
Current:							
General government	607,955	0	0	0	0	391,578	999,533
Human resources	727,006	979,501	0	916,378	0	359,565	2,982,450
Education	3,886,999	0	0	0	0	493,428	4,380,427
Public safety	358,650	0	0	0	0	218,392	577,042
Agriculture and natural resources	15,909	0	0	0	0	80,117	96,026
Highways and other transportation	0	0	1,013,957	0	0	13,137	1,027,094
Health and environment	29,215	0	0	0	0	169,801	199,016
Economic development	0	0	0	0	0	3,780	3,780
Debt service:							
Principal	0	0	0	0	0	93,570	93,570
Interest	0	0	0	0	0	142,316	142,316
Total expenditures	<u>5,625,734</u>	<u>979,501</u>	<u>1,013,957</u>	<u>916,378</u>	<u>0</u>	<u>1,965,684</u>	<u>10,501,254</u>
Excess of revenues over (under) expenditures	<u>369,334</u>	<u>(438,430)</u>	<u>(42,731)</u>	<u>680,020</u>	<u>0</u>	<u>(668,261)</u>	<u>(100,068)</u>
Other financing sources (uses):							
Proceeds from sale of debt	0	0	0	0	0	532,422	532,422
Transfers, net	(16,815)	412,156	(12,797)	(670,951)	0	326,237	37,830
Other financing sources (uses)	0	0	0	0	0	(177,402)	(177,402)
Total other financing sources (uses)	<u>(16,815)</u>	<u>412,156</u>	<u>(12,797)</u>	<u>(670,951)</u>	<u>0</u>	<u>681,257</u>	<u>392,850</u>
Net change in fund balances	<u>352,519</u>	<u>(26,274)</u>	<u>(55,528)</u>	<u>9,069</u>	<u>0</u>	<u>12,996</u>	<u>292,782</u>
Fund balances, beginning of year	312,733	89,839	773,941	0	(755,115)	664,260	1,085,658
Revisions to beginning fund balances	428	118	0	0	0	(25,307)	(24,761)
Fund balances, beginning of year (restated)	<u>313,161</u>	<u>89,957</u>	<u>773,941</u>	<u>0</u>	<u>(755,115)</u>	<u>638,953</u>	<u>1,060,897</u>
Change in reserves for inventory	6,232	0	149	0	0	0	6,381
Fund balances, end of year	<u>\$ 671,912</u>	<u>\$ 63,683</u>	<u>\$ 718,562</u>	<u>\$ 9,069</u>	<u>\$ (755,115)</u>	<u>\$ 651,949</u>	<u>\$ 1,360,060</u>

(Continued)

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

State of Kansas
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds - Continued
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	<u>Total Governmental</u>
Reconciliation to the Statement of Activities:	
Total net change in fund balance from previous page	\$ 292,782
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	(21,397)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the Statement of Net Assets:	
Revenue bond proceeds	(516,526)
Bond premiums and discounts	(10,784)
Loan proceeds	(1,700)
Other borrowings	(3,412)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.	93,570
Defeased debt is reported as an other financing use in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.	177,402
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets	361,253
Depreciation expense	(52,111)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Arbitrage rebate expense	305
Compensated Absences	(8,884)
Accrued Interest	(5,431)
Other expenses	(6,332)
Loss on asset disposal	(3,205)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	(9,872)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities	<u><u>\$ 285,658</u></u>

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

State of Kansas

Statement of Net Assets - Proprietary Funds

June 30, 2006

(expressed in thousands)

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor funds	Totals	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 129,505	\$ 10,063	\$ 791	\$ 31,031	\$ 171,390	\$ 27,385
Investments	0	0	67,408	6,526	73,934	0
Receivables, net	10,987	2,131	4,077	10,971	28,166	0
Inventories	0	0	0	1,681	1,681	379
Total current assets	140,492	12,194	72,276	50,209	275,171	27,764
Noncurrent assets:						
Investments	43,547	0	127,496	10,134	181,177	0
Receivables, net	716,713	0	0	23,476	740,189	0
Restricted cash and cash equivalents	38,406	577,890	0	1,748	618,044	0
Restricted investments	81,388	0	0	0	81,388	0
Advances to other funds	0	0	1	4,000	4,001	29
Capital assets (net of accumulated depreciation)	0	0	3	388	391	91,281
Other noncurrent assets	18,396	0	0	353	18,749	0
Total noncurrent assets	898,450	577,890	127,500	40,099	1,643,939	91,310
Total assets	\$ 1,038,942	\$ 590,084	\$ 199,776	\$ 90,308	\$ 1,919,110	\$ 119,074
LIABILITIES						
Current liabilities:						
Accounts payable and other current liabilities	\$ 7,198	\$ 5,444	\$ 339	\$ 7,172	\$ 20,153	\$ 6,522
Due to other funds	0	0	0	5,755	5,755	1,448
Short-term compensated absences	0	0	36	6	42	1,297
Short-term portion of long-term liabilities	29,897	0	10,188	4,865	44,950	48,789
Total current liabilities	37,095	5,444	10,563	17,798	70,900	58,056
Noncurrent liabilities:						
Compensated absences	0	0	5	1	6	166
Claims and judgements	0	0	145,712	26,306	172,018	21,173
Bonds, notes and loans payable	678,431	0	0	33,438	711,869	63,637
Arbitrage Rebate Payable	705	0	0	0	705	0
Advances from other funds	0	0	0	0	0	1,797
Other noncurrent liabilities	(7,770)	0	0	0	(7,770)	0
Total noncurrent liabilities	671,366	0	145,717	59,745	876,828	86,773
Total liabilities	708,461	5,444	156,280	77,543	947,728	144,829
NET ASSETS						
Invested in capital assets, net of related debt	0	0	3	388	391	25,716
Restricted for:						
Debt service	0	0	0	16,894	16,894	0
Other purposes	330,481	583,929	43,497	(23,851)	934,056	0
Unrestricted	0	711	(4)	19,334	20,041	(51,471)
Total net assets	330,481	584,640	43,496	12,765	971,382	(25,755)
Total liabilities and net assets	\$ 1,038,942	\$ 590,084	\$ 199,776	\$ 90,308	\$ 1,919,110	\$ 119,074

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

State of Kansas

**Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Proprietary Funds**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemploy- ment Insurance	Health Care Stabilization	Nonmajor Funds	Totals	
Operating revenues:						
Charges for services	\$ 22,193	\$ 345,492	\$ 27,402	\$ 238,655	\$ 633,742	\$ 91,810
Other revenue	3,311	25,122	4,481	3,059	35,973	(10,647)
Total operating revenues	<u>25,504</u>	<u>370,614</u>	<u>31,883</u>	<u>241,714</u>	<u>669,715</u>	<u>81,163</u>
Operating expenses:						
Salaries and wages	0	0	759	4,538	5,297	25,142
Supplies and services	0	0	4,441	33,961	38,402	36,450
Lottery prize awards	0	0	0	131,005	131,005	0
Depreciation	0	0	2	183	185	4,612
Insurance claims and expenses	0	253,040	0	1,961	255,001	16,660
Program administration - Water Funds	1,784	0	0	0	1,784	0
Other expenses	406	15	23,047	1,985	25,453	97
Total operating expenses	<u>2,190</u>	<u>253,055</u>	<u>28,249</u>	<u>173,633</u>	<u>457,127</u>	<u>82,961</u>
Operating income (loss)	<u>23,314</u>	<u>117,559</u>	<u>3,634</u>	<u>68,081</u>	<u>212,588</u>	<u>(1,798)</u>
Nonoperating revenues (expenses):						
Operating grants	0	4,427	0	0	4,427	0
Capital grants	20,799	0	0	0	20,799	0
Investment earnings	13,631	22,302	0	1,513	37,446	0
Interest expense	(31,805)	0	0	(1,107)	(32,912)	(3,239)
Other expenses	0	0	(4,252)	0	(4,252)	0
Total nonoperating revenues (expenses)	<u>2,625</u>	<u>26,729</u>	<u>(4,252)</u>	<u>406</u>	<u>25,508</u>	<u>(3,239)</u>
Net income (loss)	<u>25,939</u>	<u>144,288</u>	<u>(618)</u>	<u>68,487</u>	<u>238,096</u>	<u>(5,037)</u>
Transfers in	0	(1,182)	2,065	(67,060)	(66,177)	(14)
Transfers out	0	(689)	0	(2)	(691)	(4,821)
Net change in net assets	<u>25,939</u>	<u>142,417</u>	<u>1,447</u>	<u>1,425</u>	<u>171,228</u>	<u>(9,872)</u>
Total net assets - beginning	304,542	442,223	39,651	(14,293)	772,123	(16,262)
Revisions to beginning net assets	0	0	2,398	25,633	28,031	379
Net assets - beginning (restated)	<u>304,542</u>	<u>442,223</u>	<u>42,049</u>	<u>11,340</u>	<u>800,154</u>	<u>(15,883)</u>
Total net assets - ending	<u>\$ 330,481</u>	<u>\$ 584,640</u>	<u>\$ 43,496</u>	<u>\$ 12,765</u>	<u>\$ 971,382</u>	<u>\$ (25,755)</u>

State of Kansas
Financial Statements
June 30, 2006

State of Kansas
Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemploy- ment Insurance	Health Care Stabilization	Nonmajor funds	Totals	
Cash flows from operating activities:						
Cash receipts from customers	\$ 21,724	\$ 370,457	\$ 32,014	\$ 242,350	\$ 666,545	\$ 81,163
Cash payments to suppliers for goods and services	(1,514)	(2,438)	(28,744)	(36,229)	(68,925)	(35,771)
Cash payments to employees for services	0	0	(787)	(4,545)	(5,332)	(25,926)
Cash payments for lottery prizes	0	0	0	(130,130)	(130,130)	0
Claims paid	0	(253,040)	(900)	(1,664)	(255,604)	(3,269)
Other operating revenues	49,774	0	0	0	49,774	0
Other operating expenses	(100,949)	0	0	0	(100,949)	0
Net cash provided (used) by operating activities	(30,965)	114,979	1,583	69,782	155,379	16,197
Cash flows from noncapital financing activities:						
Operating grants receipts	0	4,427	0	0	4,427	0
Other non-operating expenses	0	0	(4,252)	0	(4,252)	0
Net transfers to other funds	0	(1,801)	2,065	(66,637)	(66,373)	(7,566)
Other cash inflows from noncapital financing activities	147,635	0	0	0	147,635	0
Other cash outflows from noncapital financing activities	(121,461)	0	0	0	(121,461)	0
Net cash provided (used) by noncapital financing activities	26,175	2,626	(2,187)	(66,637)	(40,023)	(7,566)
Cash flows from capital and related financing activities:						
Proceeds from issuance of long-term debt	0	0	0	33,336	33,336	0
Repayment of long-term debt	0	0	0	(811)	(811)	(1,805)
Interest payments	0	0	0	0	0	(3,284)
Proceeds from sale of fixed assets	0	0	0	19	19	604
(Gain) loss on disposal of fixed assets	0	0	0	(15)	(15)	(547)
Payments for purchase of fixed assets	0	0	0	(269)	(269)	(2,423)
Other cash inflows from capital and related financing activities	0	0	0	502	502	0
Other cash outflows from capital and related financing activities	0	0	0	(15,584)	(15,584)	0
Net cash provided (used) by capital and related financing activities	0	0	0	17,178	17,178	(7,455)
Cash flows from investing activities:						
Proceeds from sale and maturities of investment securities	82,134	0	9,573	10,470	102,177	0
Purchase of investments	(1,530)	0	(12,718)	(27,130)	(41,378)	0
Interest and dividends	13,970	22,302	(372)	1,193	37,093	0
Unrealized (gain) loss on investments	0	0	2,403	0	2,403	0
Net cash provided (used) by investing activities	94,573	22,302	(1,114)	(15,467)	100,294	0
Net increase (decrease) in cash and cash equivalents	89,782	139,907	(1,718)	4,856	232,827	1,176
Cash and cash equivalents, beginning of year	78,129	448,046	2,509	27,923	556,607	26,209
Cash and cash equivalents, end of year	\$ 167,911	\$ 587,953	\$ 791	\$ 32,779	\$ 789,434	\$ 27,385
Reconciliation of operating income (loss) to net cash provided by operations:						
Operating income (loss)	\$ 23,313	\$ 117,559	\$ 3,634	\$ 68,081	\$ 212,587	\$ (1,798)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	0	0	2	183	185	4,612
Changes in assets and liabilities:						
Receivables	(53,329)	(157)	131	931	(52,424)	0
Inventories	0	0	0	(531)	(531)	247
Accounts payable	(950)	(2,423)	(1,255)	(46)	(4,674)	528
Payroll liabilities	0	0	(29)	(8)	(37)	(783)
Claims and judgements	0	0	(900)	297	(603)	13,391
Lottery prize liability	0	0	0	875	875	0
Total adjustments	(54,279)	(2,580)	(2,051)	1,701	(57,209)	17,995
Net cash provided (used) by operating activities	(30,965)	114,979	1,583	69,782	155,379	16,197

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

State of Kansas
Statement of Fiduciary Net Assets
June 30, 2006
(expressed in thousands)

	<u>Pension Trust</u>	<u>Investment Trust</u>	<u>College Savings Program</u>	<u>Agency</u>
ASSETS				
Cash and cash equivalents	\$ 1,299	\$ 788,758	\$ 718	\$ 448,133
Investments	14,638,452	0	1,367,436	1,092,744
Receivables, net	3,385,598	0	2,731	29,971
Inventories	23	0	0	0
Capital assets	<u>5,777</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total assets	<u>\$ 18,031,149</u>	<u>\$ 788,758</u>	<u>\$ 1,370,885</u>	<u>\$ 1,570,848</u>
LIABILITIES				
Accounts payable and other liabilities	<u>\$ 5,678,259</u>	<u>\$ 0</u>	<u>\$ 466</u>	<u>\$ 1,570,848</u>
Total liabilities	<u>5,678,259</u>	<u>0</u>	<u>466</u>	<u>\$ 1,570,848</u>
NET ASSETS				
Net assets held in trust	<u>\$ 12,352,890</u>	<u>\$ 788,758</u>	<u>\$ 1,370,419</u>	

The notes to the financial statements are an integral part of this statement.

State of Kansas
Financial Statements
June 30, 2006

State of Kansas

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Pension Trust	Investment Trust	College Savings Program Trust
ADDITIONS			
Contributions:			
Employer contributions	\$ 352,032	\$ 0	\$ 0
Employee contributions	246,203	0	0
College savings contributions	<u>0</u>	<u>0</u>	<u>353,732</u>
Total contributions	598,235	0	353,732
Deposits:			
Net investment income	1,354,408	23,449	78,578
MIP deposits	0	3,116,546	0
Other deposits	<u>175</u>	<u>0</u>	<u>0</u>
Total additions	<u>1,952,818</u>	<u>3,139,995</u>	<u>432,310</u>
DEDUCTIONS			
Benefits and refunds:			
Monthly benefits and refunds	805,979	0	0
Refunds of contributions	46,826	0	0
Death benefits	8,811	0	0
Distributions	<u>0</u>	<u>2,869,242</u>	<u>109,637</u>
Total benefits and refunds	861,616	2,869,242	109,637
Administrative expenses	<u>62,677</u>	<u>0</u>	<u>973</u>
Total deductions	<u>924,293</u>	<u>2,869,242</u>	<u>110,610</u>
Net increase (decrease)	1,028,525	270,753	321,700
Net assets - beginning of year	<u>11,324,365</u>	<u>518,005</u>	<u>1,048,719</u>
Net assets - end of year	<u><u>\$ 12,352,890</u></u>	<u><u>\$ 788,758</u></u>	<u><u>\$ 1,370,419</u></u>

The notes to the financial statements are an integral part of this statement.

I. Summary of Significant Accounting Policies

The accompanying financial statements of the State of Kansas (the “State”) have been prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the standard setting body for governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The accompanying financial statements present the financial position of the State and the various funds and fund types, the results of operations of the State and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2006 and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Kansas State Legislature and/or Constitutional Officers of the State of Kansas.

The State has considered all potential component units for which it is financially accountable, organizations that raise and hold economic resources for the State, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State’s financial statements to be misleading or incomplete.

As required by generally accepted accounting principles, these financial statements present the State of Kansas (the primary government) and its component units.

The accompanying financial statements present the activities of State government (the primary government), which is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court, and the District Trial Courts.

Discrete Component Units

Discrete component units are entities that are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State’s financial statements to be misleading or incomplete. The component units are reported in a separate column to emphasize that they are legally separate from the primary government and are governed by separate boards.

Following is a table identifying each discretely presented component unit followed by a brief description of each component unit. Complete financial statements for each of the individual component units may be obtained from their respective administrative offices at the noted addresses.

State of Kansas
Notes to the Financial Statements
June 30, 2006

I. Summary of Significant Accounting Policies

<u>Component Unit</u>	<u>Description: Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Kansas Development Finance Authority (KDFA)	The State appoints a voting majority of the board of KDFA and has the power to impose its will on KDFA.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Development Finance Authority 555 South Kansas Avenue, Suite 202 Topeka, Kansas 66603
Kansas Technology Enterprise Corporation (KTEC)	The State appoints a voting majority of the board of KTEC and has the power to impose its will on KTEC. There is a potential for KTEC to impose specific financial burdens or provide specific financial benefits to the State. KTEC is fiscally dependent on the State.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Technology Enterprise Corporation 214 SW 6 th Avenue, Suite 100 Topeka, Kansas 66603
Kansas Housing Resources Corporation (KHRC)	KHRC is a subsidiary corporation of KDFA and a legal entity separate and distinct from KDFA and the State.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Housing Resources Corporation 611 S. Kansas Avenue, Suite 300 Topeka, Kansas 66603
State University System	The State appoints a voting majority of the Kansas Board of Regents which controls the State universities, and has the power to impose its will on the State universities through the budgeting process.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	The Kansas Board of Regents does not issue separate financial statements. For separate financial statements of a university, contact the respective university or: Kansas Board of Regents 1000 SW Jackson St., Suite 520 Topeka, KS 66612-1368

Kansas Development Finance Authority (KDFA) was established by Chapter 57, 1987 Session Laws of Kansas. Its enabling statutes are found in K.S.A. 74-8901 et seq., as amended and supplements. KDFA is a public body politic and corporate, constituting an independent instrumentality of the State of Kansas. KDFA was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

Kansas Technology Enterprise Corporation (KTEC) is a body politic, corporate, and an instrumentality of the State of Kansas, which was created by the Legislature of the State in March 1986 (K.S.A. 74-8101). The responsibilities and duties of the existing State Office of Advanced Technology were transferred to KTEC effective January 12, 1987. KTEC's principal statutory functions and responsibilities are as follows:

- To foster innovation in existing and developing businesses, especially the creation, growth, and expansion of Kansas enterprises in a diversified range of primary sectors which develop value-added products, processes, and services.
- To invest in basic research, applied research and development, and technology transfer at Kansas educational

I. Summary of Significant Accounting Policies

institutions which meet competitive standards of excellence and which create innovative collaboration between Kansas educational institutions and Kansas enterprises.

- To award applied research matching grants to Kansas educational institutions and Kansas private enterprises in order to move innovation and applied research toward commercial application.
- To engage in seed-capital financing for the development and implementation of innovations or new technologies for existing resource, technology-based, and emerging Kansas businesses.
- To provide technical referral services to such small, new, emerging, or mature businesses and encourage Kansas educational institutions to establish technical information databases and industrial liaison offices, which are easily accessible by both private and public sector Kansas organizations.

Kansas Housing Resources Corporation (KHRC) was formed pursuant to K.S.A. 74-8904(v) per the Governor's Executive Reorganization Order #30. KHRC is a subsidiary corporation of the Kansas Development Finance Authority. KHRC's mission is to enhance Kansas communities with housing opportunities. This goal is achieved through using a variety of strategies and approaches, including increasing homeownership opportunities, leveraging the construction of more affordable rental housing, promoting energy efficiency improvements for owner-occupied and rental housing, providing affordable housing through rental assistance to low-income families and senior citizens, and creating housing opportunities for previously underserved persons and communities.

State University System. The Kansas State Board of Regents, created in 1859 by adoption of the State Constitution, is responsible for control and supervision of public institutions of higher education which benefit the State. The Kansas Board of Regents is a legally separate body composed of nine members appointed by the Governor. The Board supervises all State universities while budgetary decisions are exercised at the State level. The State university system consists of the Board's administrative arm and six constituent universities. Funding for the State university system is accomplished primarily by State appropriations, tuition and fees, sales and services, federal and state grants, and private donations and grants.

In addition to the Kansas Board of Regents' administrative arm, the following universities and their respective component units make up the State university system for financial reporting purposes: University of Kansas, including the University of Kansas Medical Center; Kansas State University; Wichita State University; Emporia State University; Pittsburg State University; and Fort Hays State University. Each university issues its own complete financial statements which can be obtained from the respective university. The Kansas Board of Regents' administrative arm does not issue separate financial statements.

B. Government-wide and Fund Financial Statements

Government-wide Statements – The statement of net assets and the statement of activities report information of the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the duplication of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the State and between its discretely presented component units. Governmental activities are generally supported by taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are supported in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

I. Summary of Significant Accounting Policies

The State classifies State spending by function of government and by category of expenditure. Function of government is a grouping of agencies, which make expenditures for similar programs and purposes. There are eight functions of government: (1) general government; (2) human resources; (3) education; (4) public safety; (5) agriculture and natural resources; (6) transportation; (7) health and environment; and (8) economic development. *General Government* includes State agencies with both administrative and regulatory functions. These agencies include the State's elected officials and the Department of Administration. *Human Resources* agencies provide services to individuals. *Education* agencies provide various educational services to Kansans. *Public Safety* agencies ensure the safety and security of Kansas' citizens. *Agriculture and Natural Resources* agencies protect the natural and physical resources of the State and regulate the use of those resources. *Transportation* includes only the Department of Transportation. Responsibilities of this agency include maintenance and construction of highways in Kansas. The *Health and Environment* agency optimizes the promotion and protection of the health of Kansans through efficient and effective public health programs and services and through preservation, protection, and remediation. *Economic Development* reflects certain economic development initiatives.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements – The fund financial statements provide information about State funds, including fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include income and sales taxes, grants, entitlements, and donations. On an accrual basis, revenue from income and sales taxes is recognized in the fiscal year the underlying exchange occurred, while revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures generally are recorded when the related liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the State funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the policy of the State to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

The financial statements of the proprietary funds, fiduciary funds, and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described

I. Summary of Significant Accounting Policies

above. In reporting the financial activities of the proprietary funds the State applies all applicable GASB pronouncements and FASB pronouncements issued prior to November 30, 1989.

D. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds. In addition, a description of the internal service, fiduciary and component units follows:

Governmental Funds:

These funds include the State's main operating fund, special revenue funds, capital projects funds, and debt service funds.

General Fund – This is the primary operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Social and Rehabilitation Services Fund – This fund accounts for all the activities of the Department of Social and Rehabilitation Services.

Health Policy Authority – This fund includes all health insurance purchasing by the State, as well as federally funded programs (Medicaid, State Children's Health Insurance Program and Medikan) and the State Employee Health Insurance Program.

Transportation Fund – This fund is the primary operating fund of the Department of Transportation. The Department of Transportation has the statutory responsibility to coordinate planning, development and operation of the various modes and systems of transportation in the State.

Transportation-Capital Projects Fund – This fund accounts for the financial resources to be used for construction of major capital facilities for the Department of Transportation.

Proprietary Funds:

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public, or where sound financial management dictates that periodic determinations of results of operations are appropriate.

Water Funds– This fund accounts for the Water Pollution Control and Public Water Supply Revolving Loan funds controlled by the Department of Health and Environment.

Unemployment Insurance Fund – This fund accounts for unemployment insurance for the deposit of moneys requisitioned for the Kansas Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits.

Health Care Stabilization Fund – This fund accounts for moneys accumulated to pay damages for personal injury or death arising out of the rendering of or the failure to render professional services by a health care provider, self-insurer or inactive health care provider subsequent to the time that such health care provider or self-insurer qualified for coverage under the provisions of this program.

I. Summary of Significant Accounting Policies

Internal Service Funds - These funds account for printing, information technology, accounting, motor pool, aircraft, building maintenance, architectural, central mail, workers' compensation, and capitol security services provided to other departments on a cost-reimbursement basis.

Fiduciary Funds:

The State presents as Fiduciary Funds those activities that account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governmental units.

Pension Trust Fund -- This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Public Employees Retirement System.

Investment Trust Fund – This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Municipal Investment Pool.

Private Purpose Trust Fund - This fund accounts for the College Savings Program that allows participants to invest in a college savings account to cover tuition, fees, and the cost of room and board, books, supplies and equipment required for the enrollment or attendance of a beneficiary at an eligible educational.

Agency Funds - These funds account for assets held by the State in a custodial capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Both government-wide and proprietary funds financial statements of the State follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The effect of interfund activity has generally been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses are generated from providing services or products in connection with the enterprise operations of the funds.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Cash balances of funds in the State Treasury are pooled and are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board (PMIB) and are reported at fair value, based on quoted market prices.

For purposes of reporting cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash.

The investment policies of the PMIB are governed by State statutes. The primary objectives are to attain safety, liquidity, and yield. Allowable investments for State pooled moneys not held in Kansas financial institutions are as follows:

I. Summary of Significant Accounting Policies

- Direct obligations of, or obligations except mortgage backed securities, that are insured as to principal and interest by the U.S. Government, or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Interfund loans to various State agencies as mandated by the Kansas Legislature limited to not more than the lesser of 10 percent or \$80,000,000 of total investments.
- Certain Kansas agency and IMPACT Act projects and bonds
- Linked deposit loans for agricultural production not to exceed \$55 million
- High grade commercial paper

Specific Fund Investments – State statutes permit investing cash balances not included in the PMIB in the following types of investments:

- U. S. Government obligations
- Mortgage backed securities
- Corporate securities
- U.S. Government agency securities
- Repurchase agreements
- Commercial paper not to exceed 270 days to maturity and rated within the two highest commercial paper ratings
- State of Kansas agency bonds, with maturities not to exceed four years

In addition to the above investments, short-term bond proceeds may be invested at the direction of KDFA through the PMIB.

Kansas Municipal Investment Pool - The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Office of the Kansas State Treasurer (Treasurer) acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school districts and other governmental entities holding public moneys are eligible to participate in the MIP. The deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio.

Kansas Public Employees Retirement System (KPERS) Investments - The Retirement System's investment categories, as permitted by statute, include equities, fixed income securities, cash equivalents, real estate, derivative products and alternative investments. KPERS value its investments at fair value. In fulfilling its responsibilities, the Board of Trustees contracts with investment management firms and a master global custodian.

Investment Income Allocation – State statutes require interest earned to be credited to the State General Fund unless required by law to be credited based on average daily balance to a specific fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are shown net of an allowance for uncollectibles.

I. Summary of Significant Accounting Policies

Inventories

Inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the government-wide financial statements are accounted for using the consumption method. Inventories in the governmental funds financial statements are on the purchases method. The purchases method provides that inventory be treated as an expenditure when purchased. Consumable supplies are reported only if over \$200,000 per agency.

The governmental funds statements have a current financial resources focus. As a result, modified accrual adjustments to capitalize inventory at year-end affect beginning fund balance rather than expenditures. The focus on current financial resources is better maintained by not adjusting the expenditures for the amount of inventory reclassified to the balance sheet. The government-wide statements, however, require the full accrual adjustment to expenditures to properly reflect the amount of inventory consumed during the fiscal year.

Deferred Bond Issuance Costs

Deferred bond issuance costs consist of the costs incurred related to bond issuance. These costs are capitalized and amortized over the term of the bonds using the straight-line method.

Restricted Assets

Certain resources are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by bond requirements. The Employment Security Fund was established by law as a special fund separate and apart from all public money or funds of the State. The cash is maintained in a separate bank account with the U.S. Treasury.

Capital Assets

Capital assets are reported at actual or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Construction in process is capitalized. Capitalization policies (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Policy	Depreciation Method	Estimated Useful Life
Land	\$100,000	Not applicable	Not applicable
Buildings and leasehold improvements	100,000	Straight-line	40 years
Furnishings and equipment	5,000	Straight-line	8 years
Automobiles	5,000	Straight-line	5 years

The depreciation method is straight line with no salvage value. Accumulated depreciation is calculated in total by class of assets by year using the one half year convention in year of purchase. No depreciation is recorded for land and construction in progress.

Works of art and historical items are not capitalized. It is the intent of the State of Kansas that all art works and historical objects be held for the purpose of exhibition to the public to further education and research. It is also the intent to preserve and protect such items to insure their availability to future generations. If any items are sold from any collection, the proceeds from such disposition are intended to be set aside for future acquisitions for the collections.

I. Summary of Significant Accounting Policies

Infrastructure

The roadway system and bridge system are reported using the modified approach. Accordingly, depreciation is not reported for these systems, and all expenditures, except for additions and improvements are expensed.

Compensated Absences

Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation. State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. The State uses the vesting method to compute the sick leave liability. The compensated absences liability will be liquidated by the State's governmental and internal service funds.

Bonds and Notes Payable

Bonds and notes payable consist of notes and bonds issued to finance capital improvements for various projects. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and deferred bond issuance costs are capitalized and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Deferred bond issuance costs are reported as an other asset and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as deferred bond issuance costs, during the current period. The face amount of bond debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses. Bond issuance costs are reported as debt service expenditures.

Other Long-term Obligations

Other long-term obligations consist of claims and judgments, capital leases payable, and other miscellaneous long-term obligations. In the government-wide financial statements, and proprietary fund types in the fund financial statements, other long-term obligations are reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are reserved for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used in preparing the financial statements.

I. Summary of Significant Accounting Policies

G. Pending Governmental Accounting Standards Board Statements

At June 30, 2006, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the State. The State plans to implement the provisions of these statements on or before their effective dates. Management has not yet determined the impact these new statements will have on the State's financial statements:

GASB Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", was issued in April 2004. The objective of this statement is to establish uniform standards of financial reporting by state and local government entities for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and (b) other types of postemployment benefits (i.e. life insurance) if provided separately from a pension plan. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and where applicable, net assets and changes in net assets of such funds and for related disclosures. The provisions of this statement are effective for periods beginning after December 15, 2005.

GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", was issued in June, 2004. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities and assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for the State of Kansas for periods beginning after December 15, 2006.

GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" was issued in September, 2006. This statement establishes criteria to ascertain if proceeds from sales of future cash flows received should be reported as revenue or as a liability. The provisions of this statement are effective for period beginning after December 15, 2006.

II. Stewardship, Compliance, Accountability

A. Excess of Expenditures Over Appropriations

For the year ended June 30, 2006, expenditures did not exceed appropriations or limitations.

B. Deficit Fund Equity

The Transportation – Capital Projects Fund had a deficit fund balance in fiscal year 2006 due to reporting requirements of demand bonds with no long-term financing agreement in place.

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

A. Deposits and Investments

A summary of deposits and investments at June 30, 2006 is as follows (expressed in thousands):

	Govt and Business Type Activities	Pension Trust	Investment Trust	College Savings Program	Agency	Component units	Total
Pooled Cash and Investments							
Cash	\$ 16,941	\$ 1,299	\$	\$	\$	\$	\$ 18,240
Investments	1,472,670		788,758		465,392	312,555	3,039,375
Cash deposits with financial institutions	91,136						91,136
Cash with U.S. Treasury	577,890						577,890
Unclaimed Property invested by KPERs	169,528						169,528
Imprest funds and agency bank accounts	1,275					78	1,353
Canteen, members' benefit, members' money in agency's custody					9,397		9,397
Kansas Public Employees Retirement (KPERs)		14,638,452					14,638,452
Investments owned by other funds	941,727				920,587	105,320	1,967,634
Learning Quest investments				1,368,154			1,368,154
Security deposits held by Kansas Insurance Dept.					172,157		172,157
Star Bonds	49,972						49,972
Miscellaneous cash and other adjustments	(63,295)				(26,657)	1,980,769	1,890,817
Total	\$ 3,257,844	\$ 14,639,751	\$ 788,758	\$1,368,154	\$ 1,540,876	\$ 2,398,722	\$23,994,105

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

A reconciliation of deposits and investments for the State to the basic financial statements at June 30, 2006, is as follows (expressed in thousands):

Disclosures Regarding Deposits and Investments:

Total investments and deposits	\$ 20,812,705
Carrying amount of deposits	<u>3,181,400</u>
Total	<u><u>\$ 23,994,105</u></u>

Statement of Net Assets

Governmental and Business-Type Activities

Cash and cash equivalents	\$ 1,573,191
Investments at fair market value	854,108
Restricted Cash and Cash Equivalents	749,155
Restricted Investments	81,388

Component Units

Cash and cash equivalents	393,431
Investments at fair market value	1,849,263
Restricted Cash and Cash Equivalents	56,030
Restricted Investments	99,998

Statement of Fiduciary Net Assets

Cash and cash equivalents	1,238,908
Investments at fair market value	<u>17,098,633</u>
Total	<u><u>\$ 23,994,105</u></u>

State Treasury and Municipal Investment Pool Balance

Cash balances in the State Treasury are held in numerous bank accounts. Available cash balances beyond immediate needs are pooled for short-term investment purposes. The cash balances and investments are combined and reported under the caption of "Cash and cash equivalents." The State Treasury and Municipal Investment Pool Balance as of fiscal year-end is comprised as follows (expressed in thousands):

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

State Treasury and Municipal Investment Pool Balance

Pooled Cash and Investments

Cash	
Kansas banks demand accounts	\$ 18,240
Investments at fair market value	
Kansas banks certificates of deposit	83,524
U.S. government agencies securities	1,079,640
Commercial paper	1,197,775
Repurchase agreements	613,815
Loans Receivable	4,808
Public water supply loan fund	5,000
Linked deposits	54,813
Cash deposits with financial institutions	
Moneys in custodial demand accounts	614
Cash items	451
Cash in transit	90,071
Unclaimed property invested by KPERS	169,528
Unemployment trust fund cash with U.S. Treasury	577,890
Total State Treasury and Municipal Investment Pool Balance	\$ <u>3,896,169</u>

III. Detailed Notes On All Funds

At June 30, 2006, the carrying amount (book balance) of the deposits included in the State Treasury balance was \$3,181.4 million. At June 30, 2006, the State Treasurer had \$157.2 million in the associated bank balances. For cash deposits with financial institutions, the State requires that its depository banks pledge collateral that has a market value equal to or greater than the deposits. Effective March 15, 2004, the Kansas State Treasurer's office in its role as custodian for collateral pledged against the State of Kansas deposits, agreed to follow the changes to the pledged collateral policy that the Pooled Money Investment Board has approved. The criteria for Kansas Bank CDs is as follows:

- U.S. Treasury securities (T-Bills, T-Notes, and Treasury Strips) and Federal Agency securities (Discount Notes and Debentures) with a final maturity of five years and under will require pledging of 100 percent collateralization (for any amount over the \$100,000 FDIC coverage).
- Any other type of security (including CMO's and MBS), surety bonds, or letters of credit (regardless of the final maturity) will require 105 percent collateralization.
- Any security with a final maturity longer than five years will require 105 percent collateralization.

Securities pledged as collateral for demand deposit accounts will not be subject to the new pledged collateral policy. The State's deposits with financial institutions were fully collateralized at fiscal year-end by FDIC insurance or pledged collateral (either government securities, FHLB letters of credit or surety bonds). The pledged securities and bonds are held in safekeeping for the State Treasurer at the Federal Reserve Bank of Kansas City or in approved custodial banks and are held in the name of the State.

The cash balances in the State Treasury are included in the financial statements in the category "Cash and cash equivalents." Also included in this category are amounts outside the State Treasury such as cash in agencies' imprest funds and authorized bank accounts, canteen, benefit and members' moneys in agencies' custody.

Component Unit - KDFA

KDFA has adopted a formal investment policy. The primary objectives of investment activities are, in priority order, safety, yield and liquidity. The standard of care to be used by investment officials shall be the "prudent investor" standard, and shall be applied in the context of managing an overall portfolio.

At June 30, 2006, KDFA has \$235,873 invested in the State of Kansas Municipal Investment Pool. As of June 30, 2006, KDFA has \$3,490,000 invested in a repurchase agreement with Morgan Stanley.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, KDFA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The bank balances of KDFA's deposits at June 30, 2006 totaled \$3,912,269. None of the bank balance of securities held as collateral for the deposits were held by the pledging financial institution (the counterparty). The remainder is fully insured with an excess insurance bond provided by the counterparty, as well as by the standard coverage of Federal Deposit Insurance Corporation (FDIC).

Credit Risk. KDFA's policy limits investments to those allowed by State Statute, and further to those with one of the top two ratings from Standard & Poor's or Moody's Investor Services, depending on the type of investment. As of June 30, 2006, KDFA was invested in certificates of deposit, the Kansas Municipal Investment Pool, and a repurchase agreement with Morgan Stanley. As of June 30, 2006, the pool was rated AA+ / S1+ by Standard & Poor's. The repurchase agreement's underlying securities were GNMA securities, which are explicitly guaranteed by the U.S. government and thus carry no credit risk.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from the fluctuations in interest rates, KDFA's investment policy limits investment maturities as follows: The portion of the portfolio equal to 150 percent of the current year annual operating expense budget shall be continuously invested in obligations which have maturities of eighteen months or less. Monies in excess of the 150 percent may be invested in obligations greater than eighteen months, but no more than forty-eight months.

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

As of June 30, 2006, KDFA had the following investments with the noted investment maturities (expressed in thousands):

Investment Type	June 30, 2006		
	Fair Value	Less than 1 year	1 - 5 Years
Repurchase agreement	\$ 3,490	\$ 370	\$ 3,120
KMIP	236	236	-
Total	<u>\$ 3,726</u>	<u>606</u>	<u>3,120</u>

KDFA's investments during the year did not vary substantially from those at year-end in amounts or level of risk.

Component Unit - KHRC

KHRC cash equivalents are defined as short-term highly liquid investments that are readily convertible to cash with an original maturity of three months or less. Restricted cash and cash equivalents include cash held under Federal grant programs, at fair value. Various government programs dictate how these restricted funds may be used.

As of June 30, 2006, KHRC has \$5,282,923 invested in the State Housing Trust Fund and \$583,991 held for Federal and fee funded programs, both of which are managed by the Kansas State Treasurer's office.

Investment Policy. KHRC has adopted a formal investment policy. The primary objectives, in priority order, of investment activities shall be safety, yield, and liquidity. The standard of care to be used by investment officials shall be "prudent person" standard, and shall be applied in the context of managing an overall portfolio.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of failure of the counterparty, KHRC will not be able to recover the value of its deposits or investments that are in the possession of an outside party. KHRC does not have a deposit policy for custodial credit risk. However, none of KHRC's deposits are subject to custodial credit risk as deposits are held with the Kansas State Treasurer's office.

Component Unit - KTEC

The following table summarizes the KTEC's cash and investments at June 30, 2006 (expressed in thousands):

Bank deposits and repurchase agreements	\$ 1,520
Certificates of deposit	1,382
Cash held by the State	<u>130</u>
Total Deposits	<u>\$ 3,032</u>

Cash in the amount of \$129,984 held by the State, which is not categorized below, represents grant funds received but not yet expended at June 30, 2006.

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

Custodial credit risk is the risk that in the event of a bank failure, KTEC's deposits may not be returned to them. KTEC does not have a deposit policy for custodial risk. KTEC was not exposed to custodial risk at June 30, 2006, as indicated below (expressed in thousands):

Deposits covered by federal depository insurance or collateral held by KTEC or its agent in KTEC's name	\$ 500
Deposits covered by collateral held by pledging financial institution's trust department or by its agent in KTEC's name	2,402
Total Deposits (Bank Balance)	<u>\$ 2,902</u>

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

Investments in Limited Partners consisted of the following at June 30, 2006 (expressed in thousands):

Investments in economic development LLCs

Wichita Technology Ventures, LLC	\$ 931
Manhattan Holdings, LLC	619
Prairie Investments for Technology Advancement, LLC	281
Quest Ventures, LLC	187
Milestone Ventures, LLC	130
Precede Fund, LLC	193

Venture capital investments

Bi-State Investment Group, LLC	50
Neon Royalty, LLC	38
CritiTech, Inc.	307
Quvis, Inc.	155
Relight America, Inc.	131
Redemption Plus Inc.	91
Aero Comm, Inc.	157
Nanoscale Materials, Inc.	250
Control Vision Corporation	200
Living Naturally	99
Magic Lantern, LLC	57
NutriJoy, Inc.	338
Hiper Technology	150
Vasognix Pharmaceuticals, Inc.	200
LaGarde, Inc.	100
iModules Software, Inc.	165
Kozoru, Inc	667
CyDex, Inc.	378
Pixius Communications, LLC Nexgenesis, LLC	100
PowerSmart, LLC Pixius Communications, LLC	125
Softvu, LLC PowerSmart, LLC	160
Tech Guys, Inc. Softvu, LLC	250
Winglet Technology, LLC Tech Guys, Inc.	150
Chemidex Winglet Technology, LLC	207
Griffin Technology Chemidex	100
IRR - Residential Griffin Technology	200
NUVIO Corporation IRR - Residential	150
Heartland Technologies NUVIO Corporation	150
Innovia Medical	150
Proteon Therapeutics, LLC	182
Sportvision	42
Urigen	240
Total	\$ 8,080

III. Detailed Notes On All Funds

KTEC Holdings hold an equity position in Kaw Holdings, LLC, Wichita Technology Ventures, LLC, Manhattan Holdings, LLC, Prairie Investments for Technology Advancement, LLC, Quest Ventures, LLC, Capital for Manufacturers, LLC, Milestone Ventures, LLC, and Precede Fund, LLC. These entities were co-organized by KTEC and others to make equity-related investments in preseed and other early stage financings. KTEC Holdings is in no way obligated to provide future funding to any of the joint ventures. Separate financial statements are available from each of the joint ventures upon request of the joint ventures' management.

B. Investments

Primary Government

Investments in the State Treasury Balance and Municipal Investment Pool at June 30, 2006, are as follows (expressed in thousands):

U.S. Government agency securities	\$ 452,992
Mortgage backed securities	334
Repurchase agreements	174,981
U.S. Government obligations	928,642
Municipal securities	1,050
Kansas banks	2,714
State of Kansas Municipal Investment Pool	158
Money market investments	99,358
Guaranteed investment contracts	186,980
Corporate securities	120,424
Security deposits held by Kansas Insurance Department	172,157
College Savings Program	1,368,154
Less component units and other reconciling items	(105,320)
Total investments	<u>\$ 3,402,624</u>

Investments are managed by the Pooled Money Investment Board (PMIB) which maintains a published Investment Policy.

Interest Rate Risk – The PMIB minimizes the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by: (a) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and (b) investing operating funds primarily in shorter-term securities.

Credit Risk – The PMIB minimizes credit risk, the risk of loss due to the failure of the security issuer or backer, by: (a) limiting investments to the safest types of securities; (b) pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the PMIB will do business; and (c) diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Concentration of Credit Risk – The PMIB minimizes concentration of credit risk by requiring that commercial paper shall never exceed 50 percent of the total PMIB investment portfolio, and that no more than five percent of that portfolio shall be invested in the commercial paper of any single business entity.

III. Detailed Notes On All Funds

Investments Owned by Other Funds but maintained by KDFA

Specific Fund Investments – Cash balances not held in the State Treasury may be invested as permitted by bond documents and bond covenants. Allowable investments include:

- U.S. Government obligations
- Obligations of government-sponsored agencies
- Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances
- Deposits – fully insured by FDIC
- Certain State or municipal debt obligations
- Certain pre-refunded municipal obligations
- Commercial paper
- Investments in money market funds
- Repurchase agreements
- Stripped securities
- Investments in the Municipal Investment Pool Fund
- Investment agreements
- Guaranteed investment contracts

State of Kansas
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III. Detailed Notes On All Funds

As of June 30, 2006, State agencies had the following investments (expressed in thousands):

<u>Agy No.</u>	<u>Agency Name</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>More than 10 Years</u>
034	Adjutant General	Guaranteed Investment Contracts	\$ 1,560	\$ 1,560			
173	Dept. of Administration	Guaranteed Investment Contracts	30,682	10,852	19,831		
246	Fort Hays State University	Guaranteed Investment Contracts	5,063	4,710			353
276	Dept. of Transportation	Repurchase Agreements	10,134				10,134
276	Dept. of Transportation	Guaranteed Investment Contracts	6,526	6,526			
296	Dept. of Labor	Guaranteed Investment Contracts	17,218		17,218		
300	Dept. of Commerce	Repurchase Agreements	4,567		4,567		
300	Dept. of Commerce	Guaranteed Investment Contracts	21,433		18,616	2,817	
367	Kansas State University	Repurchase Agreements	932				932
367	Kansas State University	Guaranteed Investment Contracts	36,945	2,923	30,524	723	2,774
373	State Fair Board	Guaranteed Investment Contracts	1,198	1,198			
379	Emporia State University	Guaranteed Investment Contracts	4,692		4,465		227
385	Pittsburg State University	Guaranteed Investment Contracts	4,019	3,000			1,019
521	Dept. of Corrections	Repurchase Agreements	439				439
521	Dept. of Corrections	Guaranteed Investment Contracts	1,135		1,135		
629	Dept. of Social & Rehabilitation Services	Guaranteed Investment Contracts	3,850	3,850			
682	University of Kansas	Repurchase Agreements	1,939			1,117	822
682	University of Kansas	Guaranteed Investment Contracts	5,272	2,423	283		2,567
683	University of KS Medical Center	Guaranteed Investment Contracts	22,223	21,527			695

State of Kansas
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III. Detailed Notes On All Funds

715	Wichita State University	Repurchase Agreements	1,517			555		962
715	Wichita State University	Guaranteed Investment Contracts	13,316	13,316				
	Total		\$ 194,660	\$ 71,885	\$ 96,639	\$ 5,212	\$	20,924

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III. Detailed Notes On All Funds

The investments shown above include debt service reserve funds and other investments as shown below (expressed in thousands):

Agency No.	Agency Name	Debt Service Reserve Fund	Other Investments	Total
034	Adjutant General	\$	\$ 1,560	\$ 1,560
173	Dept. of Administration		30,682	30,682
	Fort Hays State			
246	University	468	4,595	5,063
276	Dept. of Transportation	10,134	6,526	16,660
296	Dept. of Labor		17,218	17,218
300	Dept. of Commerce	10,622	15,377	25,999
367	Kansas State University	4,429	33,447	37,876
373	State Fair Board		1,198	1,198
	Emporia State			
379	University	386	4,307	4,693
	Pittsburg State			
385	University	1,019	3,000	4,019
521	Dept. of Corrections	1,574		1,574
	Dept. of Social &			
629	Rehabilitation Service		3,850	3,850
682	University of Kansas	4,788	2,423	7,211
	University of KS			
683	Medical Center	695	21,527	22,222
	Wichita State			
715	University	1,517	13,316	14,833
	Total	\$ 35,632	\$ 159,026	\$ 194,658

Interest Rate Risk – Due to the tax exempt status of the bonds it is generally the practice of Fund management to match reserve fund interest rates to the arbitrage yield on the bonds and the term of the investments to the maturity of the bonds. For invested loan funds, the Fund generally invests to maximize the interest rate and set a term of investment based on estimated expenditures which is generally 3-5 years.

Credit Risk – The Fund holds investments that may have credit risk since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government. The investments are unrated.

Concentration of Credit Risk – The Fund places no limit on the amount that may be invested with any one provider. The table below identifies the percent of total investments held by each provider as of June 30, 2006 (expressed in thousands).

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III. Detailed Notes On All Funds

Agency No.	Agency Name	Investment Provider	Fair Value	Percent of Total for Agency
034	Adjutant General	IXIS Funding Corp.	\$ 1,560	100%
173	Dept. of Administration	MBIA	10,852	35.37%
173	Dept. of Administration	Trinity Plus	19,831	64.63%
246	Fort Hays State University	IXIS Funding Corp.	468	9.25%
246	Fort Hays State University	FSA Capital Mgmt. Serv.	4,595	90.75%
276	Dept. of Transportation	FSA Capital Mgmt. Serv.	10,134	60.83%
276	Dept. of Transportation	XL Asset Funding Company	6,526	39.17%
296	Dept. of Labor	Trinity Plus	17,218	100.00%
300	Dept. of Commerce	Trinity Plus	15,377	59.15%
300	Dept. of Commerce	AIG	3,447	13.26%
300	Dept. of Commerce	Bayerische	3,239	12.46%
300	Dept. of Commerce	Merrill Lynch	1,120	4.30%
300	Dept. of Commerce	FSA Capital Mgmt. Serv.	2,817	10.83%
367	Kansas State University	AIG	30,524	80.59%
367	Kansas State University	MBIA	5,697	15.04%
367	Kansas State University	JP Morgan Chase	932	2.46%
367	Kansas State University	Bayerische	723	1.91%
373	State Fair Board	IXIS Funding Corp.	1,198	100.00%
379	Emporia State University	Trinity Plus	227	4.84%
379	Emporia State University	Bayerische	159	3.38%
379	Emporia State University	FSA Capital Mgmt. Serv.	4,307	91.78%
385	Pittsburg State University	AIG	814	20.25%
385	Pittsburg State University	Trinity Plus	206	5.12%
385	Pittsburg State University	MBIA	3,000	74.63%
521	Dept. of Corrections	AIG	1,574	100.00%
629	Dept. of Social & Rehabilitation Services	IXIS Funding Corp.	3,850	100.00%
682	University of Kansas	XL Asset Funding Co.	2,423	33.60%
682	University of Kansas	Bayerische	2,043	28.33%
682	University of Kansas	FSA Capital Mgmt. Serv.	1,872	25.95%
682	University of Kansas	IXIS Funding Corp.	445	6.17%

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III. Detailed Notes On All Funds

682	University of Kansas	Trinity Plus	429	5.95%
683	University of KS Medical Ctr.	XL Asset Funding Co.	5,052	22.73%
683	University of KS Medical Ctr.	MBIA	16,475	74.14%
683	University of KS Medical Ctr.	IXIS Funding Corp.	464	2.09%
683	University of KS Medical Ctr.	Societe Generale	232	1.04%
715	Wichita State University	MBIA	14,278	96.26%
715	Wichita State University	AIG	555	3.74%
Total			<u>\$ 194,663</u>	

Component Unit-Universities

The following table summarizes the State University System's cash and investments at June 30, 2006 (expressed in thousands):

	<u>Fair Value</u>
Kansas banks	\$ 2,964
Invested with PMIB	6,906
Invested with KDFA	95,450
Imprest funds	78
Cash held with the State Treasurer	306,223
Cash and other investments	<u>1,962,496</u>
Total cash and investments	<u>\$ 2,374,117</u>

University component unit cash investments minimize risks for credit, interest and concentration of credit per specific investment policies which include U.S. treasury securities or obligations explicitly guaranteed by the U.S. government.

III. Detailed Notes On All Funds

Kansas Public Employees Retirement System Investments

Investments and the investment process are governed by K.S.A. 74-4921. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses the governing provisions of the law, as well as specifying additional guidelines for the investment process.

Statutory authority for the Retirement System's investment program is provided in K.S.A. 74-4901, et seq., effective July 1, 1993. The Retirement Act addresses the following areas:

- Establishes the structure of the Board of Trustees, defines the Trustees' responsibilities, imposing the prudent expert standard upon their actions with respect to managing the assets of the Retirement System.
- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.
- Limits the possible allocation of common stock to 60 percent of the total book value of the fund.
- Limits the allocation of private placements and other alternative (non-publicly traded) investments to five percent of the total investment assets of the fund, but if market forces increase allocation above the five percent limitation, it does not require the sale of such investments held unless the sale is in the best interest of members.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.
- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments, and its policies and practices.

The Retirement System's permissible investment categories include:

- 1) Equities
- 2) Fixed income securities
- 3) Cash equivalents
- 4) Real estate
- 5) Derivative products
- 6) Alternative investments

In fulfilling its responsibilities, the Board of Trustees has contracted with 15 investment management firms and a master global custodian. Presently, the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, the net change in the future contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 2006 the Retirement System had futures contracts with market exposure of approximately \$1,404.3 million. Cash equivalents and short-term investments in amounts necessary to settle the

III. Detailed Notes On All Funds

economic value of the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income, which accrues to the System as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. Government securities, domestic and international equities, and domestic and international bonds.

The borrower collateralizes the loan with either cash or government securities of 102 percent of fair value on domestic securities and 105 percent of fair value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short-term investment fund consisting of investment grade debt securities. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2006, the maturities of securities in this dedicated bond portfolio are as follows: 45 percent of the fair value of the securities mature within 30 days; 25 percent mature between 31 and 180 days; and 30 percent mature after 180 days.

The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2005, and June 30, 2006, were \$2,372,391,980 and \$2,210,991,830 respectively. Collateral held by the Retirement System for June 30, 2005, and June 30, 2006 was \$2,441,833,132 and \$2,264,938,276 respectively. Net income produced from securities lending activities for fiscal year 2005 was \$5,077,335 and for fiscal year 2006 was \$4,565,483.

The Retirement System's international investment managers use forward contracts to hedge the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. The Retirement System also contracts with a currency overlay manager to manage the currency exposure to the System's passive international equity portfolio. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. The Retirement System could incur a loss if its counterparties failed to perform pursuant to terms of their contractual obligations. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

All forward foreign currency contracts are carried at fair value by the Retirement System. As of June 30, 2006, the System had sold forward currency contracts with a fair value of \$3,152,522,337 and had bought forward currency contracts with a fair value of \$3,182,021,813. Purchases of forward currency contracts are liabilities reported as Securities Purchased, and sales of forward currency contracts are receivables reported as Sale of Investment Securities.

The Retirement System also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations.

The Retirement System internally manages a Treasury Inflation Protected Securities (TIPS) portfolio. TIPS are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2006, the Retirement System had invested in TIPS with a fair value of approximately \$1,040.1 million.

Custodial Credit Risk - is when in the event a financial institution or counterparty fails, the System would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. One hundred percent (100%) of the System's investments are held in the System's name and are not subject to creditors of the custodial bank.

Concentration Risk - The System has investments in Federal National Mortgage Association issued securities that represent 5.4 percent of the total net asset value. No other single issuer represents five percent or more of System assets other than the U.S. Government.

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III. Detailed Notes On All Funds

Currency Risk – is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Retirement System's investments at June 30, 2006 were distributed among the following currencies (expressed in thousands):

	<u>USD Equivalent</u>	<u>Currency</u>	<u>Percent</u>
\$	608	Argentina Peso	0.00%
	161,933	Australian Dollar	1.11%
	44,761	Brazil Real	0.31%
	485,499	British Pound Sterling	3.32%
	185,760	Canadian Dollar	1.27%
	1,190	Chilean Peso	0.01%
	2,102	Chinese Yuan Renminbi	0.01%
	326	Colombian Peso	0.00%
	883	Czech Republic Koruna	0.01%
	7,129	Danish Krone	0.05%
	811	Egyptian Pound	0.01%
	931,272	Euro Currency Unit	6.36%
	82,609	Hong Kong Dollar	0.56%
	3,584	Hungarian Forint	0.02%
	4,272	Indian Rupee	0.03%
	5,465	Indonesian Rupian	0.04%
	4,738	Israeli Shekel	0.03%
	821,037	Japanese Yen	5.61%
	7,492	Malaysian Ringgit	0.05%
	31,116	Mexican New Peso	0.21%
	4,148	Moroccan Dirham	0.03%
	65,782	New Taiwan Dollar	0.45%
	25,245	New Turkish Lira	0.17%
	6,427	New Zealand Dollar	0.04%
	21,140	Norwegian Krone	0.14%
	450	Peru Nuevo Sol	0.00%
	2,149	Philippines Peso	0.01%
	13,670	Polish Zloty	0.09%
	880	Russian Rubel	0.01%
	46,206	S African Comm Rand	0.32%
	21,935	Singapore Dollar	0.15%
	66,692	South Korean Won	0.46%
	58,145	Swedish Krona	0.40%
	168,353	Swiss Franc	1.15%
	8,626	Thailand Baht	0.06%
	856	Other	0.01%
	11,345,161	U.S. Dollar *	77.50%
\$	<u>14,638,452</u>		<u>100.00%</u>

* Includes securities lending collateral of \$1,887,985

The Systems asset allocation and investment policies include active and passive investments in international securities as shown above. KPERS' target allocation is to have 18 percent of assets (excluding securities lending collateral) in

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III. Detailed Notes On All Funds

dedicated international equities. The System also has 8 percent of assets targeted to global equities which are expected to be between 40 and 60 percent international. Core Plus bond managers are allowed to invest up to 20 percent of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2006 the System's total foreign currency exposure was 20.6 percent hedged.

Credit Risk – is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require Core and Core Plus managers to have at least 70 percent of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. System assets as of June 30, 2006, subject to credit risk are shown with current credit ratings below (expressed in thousands).

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
NR	\$105,267	\$208,291	0	0	\$516,748	\$830,306
AAA	14,450	278,550	805,406	1,626,340	108,541	2,833,287
AA	211,032	168,029	304,873	0	1,146,486	1,830,420
A	8,793	169,349	0	0	116,210	294,352
BAA	0	179,882	0	0	0	179,882
BA	0	91,534	0	0	0	91,534
B	0	77,922	0	0	0	77,922
CAA	0	13,012	0	0	0	13,012
Total	<u>\$339,542</u>	<u>\$1,186,569</u>	<u>\$1,110,279</u>	<u>\$1,626,340</u>	<u>\$1,887,985</u>	<u>\$6,150,715</u>

Commercial Paper also includes repurchase agreements and other short term securities. Agency securities are those implicitly guaranteed by the U.S. Government. U.S. Government securities are treasury securities and agencies explicitly guaranteed. Securities Lending Collateral are securities invested using cash collateral from the securities lending program, not pooled with any other institution's funds. Securities rated A1/P1 are included in AA on this table. The securities lending collateral class has the following policy requirements: to be rated A3/A- or better; Commercial Paper must be A1/P1; Asset-backed securities must be AA3/AA- or better; repurchase agreements must be 102 percent collateralized with A3/A- or A1/P1 or better securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are 100 percent repurchase agreements.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. Investment policy requires Core and Core Plus managers to be within 20 percent of their benchmark duration, and all fixed portfolios shall maintain a reasonable risk level relative to their benchmarks. The same System assets as above are also subject to interest rate risk. These are shown below grouped by effective duration ranges (expressed in thousands).

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Effective Duration	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
0-1 yr	\$339,542	\$517,013	\$411,955	\$193,103	\$1,881,628	\$3,343,241
1-3 yrs	0	300,391	74,144	26,161	6,357	407,053
3-5 yrs	0	160,370	346,282	171,247	0	677,899
5-10 yrs	0	145,729	274,334	249,732	0	669,795
10-15 yrs	0	63,066	3,564	986,097	0	1,052,727
Total	<u>\$339,542</u>	<u>\$1,186,569</u>	<u>\$1,110,279</u>	<u>\$1,626,340</u>	<u>\$1,887,985</u>	<u>\$6,150,715</u>

Treasury Inflation Protected Securities comprise 92 percent of the U.S. Gov, 10-15 yrs group. Total TIPS for all duration ranges were valued at \$1,090,426,973 at June 30, 2006. Securities lending collateral policy limits the maximum average portfolio maturity of 90 days and only floating rate, and fixed rate asset-backed securities may mature beyond thirteen months.

C. External Investment Pool

The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Kansas State Treasurer's Office acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school districts and other governmental entities holding public moneys are eligible to participate in the MIP.

The MIP is considered a mixed pool because the State of Kansas are participants in the pool. At June 30, 2006, the State's participation in the Pool was \$3.7 million. Agencies of the State of Kansas deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio (PMIP). Investments subject to categorization of the PMIP are all category 1. As of March 15, 2004, the Pooled Money Investment Portfolio was rated AAAs/S-1+ by Standard & Poor's.

The MIP structure provides fixed rate investment alternatives between thirty and one hundred seventy nine days plus one hundred eighty, and three hundred sixty five-day maturities as well as a variable rate, daily liquidity, overnight investment alternative. Participants' ownership in the fund is based on their deposits and is reflected as net assets held in trust on the statement of fiduciary net assets. The MIP is valued on a monthly basis.

D. Receivables

Accounts receivable as of June 30, 2006, for the State's primary government and component units net of the applicable allowances for uncollectible accounts, are as follows (expressed in thousands).

	Primary Government			Component Units
	Governmental Activities	Business- Type Activities	Total	
Taxes receivable	\$ 418,198	\$ 0	\$ 418,198	\$ 0
Loan receivable	0	716,713	716,713	32,829
Accrued interest	843	12,447	13,290	1,966
Other receivables	288,429	39,195	327,624	221,374
Total	<u>\$ 707,470</u>	<u>\$ 768,355</u>	<u>\$ 1,475,825</u>	<u>\$ 256,169</u>

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Taxes receivable are shown net of allowances for uncollectible taxes of \$347.7 million and net of estimated individual and corporate refunds of \$200.4 million.

E. Investment in Direct Financing Leases

Component Units

The Kansas Development Finance Authority issues lease revenue bonds to facilitate construction of certain capital projects for various State agencies. KDFA's interests in the projects have been assigned to various State government units through the use of financing lease transactions. Contained in the trust indenture or resolution and lease agreement for each series of bonds is a capital lease provision by which lease revenues paid by the various governmental units, as tenants, to KDFA as lessor, are pledged to pay bond debt service. Amounts are actually paid by the State agencies directly to the bond paying agents for the lease revenue bonds.

Net investment in direct financing leases as of June 30, 2006, are as follows (expressed in thousands):

Total minimum lease payments to be received	\$ 353,359
Less: unearned income	<u>(104,544)</u>
Net investment in direct financing leases	<u>\$ 248,815</u>

The future minimum lease payments to be received by KDFA under the direct financing leases mirror the payments to be made by KDFA under the lease revenue bonds payable.

F. Restricted Assets

Certain revenue bond proceeds and other resources set aside for bond repayment, capital projects, and other purposes are reported as restricted assets in the Statement of Net Assets because their use is limited by applicable bond covenants or statutory provisions.

Donor-Restricted Assets. Kansas' permanent endowment moneys are held primarily by State university foundations. Each university has a separate foundation, and each foundation has its own policies and procedures. Typically, the permanent endowment funds have a nonexpendable permanent corpus and an earnings reserve, which is used to receive earnings and pay expenses. The donor restrictions and the Uniform Management of Institutional Funds Act (K.S.A. 58-3601) provide guidance on how these funds can be invested, and also govern the spending of net appreciation from these investments. Net appreciation is reflected in restricted net assets. The amount of net appreciation available to be spent can be found in the individual foundation annual financial reports.

Invested in capital assets, restricted for capital projects, restricted for debt service and restricted for other purposes are each shown separately on the Statement of Net Assets. The majority of restrictions are within the component units, with \$1.03 million from the Kansas University Endowment. Restrictions as of June 30, 2006 from the State's primary government and component units are as follows (expressed in thousands).

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Primary Government

	Governmental Activities	Business- Type Activities	Total
Invested in capital assets, net of related debt	\$ 8,144,626	\$ 391	\$ 8,145,017
Restricted for debt service	97,386	16,894	114,280
Restricted for other purposes	0	934,056	934,056
Unrestricted	1,309,066	20,041	1,329,107
Total	<u>\$ 9,551,078</u>	<u>\$ 971,382</u>	<u>\$ 10,522,460</u>

Component Units

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	State University System	Total
Invested in capital assets, net of related debt	\$ 53	\$ 144	\$ 249	\$ 949,483	\$ 949,929
Restricted for capital projects	0	0	0	71,654	71,654
Restricted for debt service	0	0	0	28,828	28,828
Restricted for other purposes	0	816	87	1,753,208	1,754,111
Unrestricted	5,267	12,152	7,639	330,035	355,093
Total	<u>\$ 5,320</u>	<u>\$ 13,112</u>	<u>\$ 7,975</u>	<u>\$ 3,133,208</u>	<u>\$ 3,159,615</u>

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III. Detailed Notes On All Funds

G. Capital Assets

Primary Government

	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities</i>				
Capital assets, not being depreciated:				
Land	\$ 152,419	\$ 15,315	\$ 318	\$ 167,416
Land improvements	75,971	5,195	655	80,511
Construction in progress	76,022	10,508	44,363	42,167
Infrastructure (including construction in progress)	9,423,053	1,006,647	820,035	9,609,665
Total capital assets, not being depreciated	9,727,465	1,037,665	865,371	9,899,759
Capital assets, being depreciated:				
Buildings and improvements	988,489	143,580	69,125	1,062,944
Equipment and furnishings	405,303	51,369	25,102	431,570
Vehicles	63,858	10,666	10,597	63,927
Water rights	27,273	0	0	27,273
Totals	1,484,923	205,615	104,824	1,585,714
Less accumulated depreciation for:				
Buildings and improvements	307,803	15,041	69,118	253,726
Equipment and furnishings	203,391	30,872	21,993	212,270
Vehicles	39,108	10,208	10,597	38,719
Water rights	12,216	602	0	12,818
Totals	562,518	56,723	101,708	517,533
Total capital assets, being depreciated, net	922,405	148,892	3,116	1,068,181
Governmental activity capital assets, net	<u>\$ 10,649,870</u>	<u>\$ 1,186,556</u>	<u>\$ 868,487</u>	<u>\$ 10,967,940</u>
<i>Business-type activities</i>				
Capital assets, being depreciated:				
Equipment and furnishings	\$ 4,171	\$ 269	\$ 49	\$ 4,391
Less accumulated depreciation for:				
Equipment and furnishings	3,859	185	44	4,000
Business-type activity capital assets, net	<u>\$ 312</u>	<u>\$ 84</u>	<u>\$ 5</u>	<u>\$ 391</u>

Depreciation expense was charged to functions/programs as follows (expressed in thousands):

<i>Governmental activities</i>	
General government	\$ 10,318
Human resources	4,865
Education	1,177
Public safety	16,009
Agriculture and natural resources	3,762
Highways and other transportation	19,417
Health and environment	1,175
Total depreciation expense – Government activities	<u>\$ 56,723</u>

State of Kansas
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III. Detailed Notes On All Funds

Business-type activities

Health care stabilization	\$ 2
Lottery	176
Communication System Revolving Fund	<u>7</u>
Total depreciation expense – Business-type activities	<u>\$ 185</u>

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Component Units	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Kansas Development Finance Authority</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 188	\$ 6	\$ 24	\$ 170
Buildings and improvements	105	3	0	108
Assets under development	10		10	0
Less Accumulated depreciation	206	43	24	225
Total capital assets, being depreciated, net	<u>\$ 97</u>	<u>\$ (34)</u>	<u>\$ 10</u>	<u>\$ 53</u>
<i>Kansas Technology Enterprise Corporation</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 1,189	\$ 158	\$ 0	\$ 1,347
Less accumulated depreciation	1,154	48	0	1,202
Total capital assets, being depreciated, net	<u>\$ 35</u>	<u>\$ 110</u>	<u>\$ 0</u>	<u>\$ 145</u>
<i>Kansas Housing Resources Corporation</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 299	\$ 13	\$ 0	\$ 312
Vehicles	12	0	0	12
Building improvements	12	37	0	49
Less accumulated depreciation	85	38	0	123
Total capital assets, being depreciated, net	<u>\$ 238</u>	<u>\$ 12</u>	<u>\$ 0</u>	<u>\$ 250</u>
<i>University System</i>				
Capital assets, not being depreciated:				
Land	\$ 33,727	\$ 863	\$ 495	\$ 34,095
Land improvements	90,871	4,373	0	95,244
Construction in progress	127,655	181,016	138,202	170,469
Total capital assets, not being depreciated	<u>252,253</u>	<u>186,252</u>	<u>138,697</u>	<u>299,808</u>
Capital assets, being depreciated				
Buildings and improvements	1,626,527	132,540	3,078	1,755,989
Equipment and furnishings	374,764	43,068	12,919	404,913
Vehicles	38,557	1,731	2,108	38,180
Total capital assets, being depreciated	<u>2,039,848</u>	<u>177,339</u>	<u>18,105</u>	<u>2,199,082</u>
Less accumulated depreciation for:				
Building and improvements	713,212	45,659	514	758,357
Equipment and furnishings	230,475	32,716	8,944	254,247
Vehicles	35,160	1,528	2,005	34,683
Totals	<u>978,847</u>	<u>79,903</u>	<u>11,463</u>	<u>1,047,287</u>
Total capital assets, being depreciated, net	<u>1,061,001</u>	<u>97,436</u>	<u>6,642</u>	<u>1,151,795</u>
University capital assets, net	<u>\$ 1,313,254</u>	<u>\$ 283,688</u>	<u>\$ 145,339</u>	<u>\$ 1,451,603</u>

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Construction Commitments

Primary Government

The State has active construction projects as of June 30, 2006. The projects include road projects, dam repair, building remodeling and restoration, and new juvenile correctional facilities. The Kansas Department of Transportation (KDOT) has outstanding commitments at June 30, 2006 for various highway projects in the amount of \$865 million. KDOT's commitments will be funded by revenues from various Federal, State, and local sources primarily in the form of matching Federal highway construction funds, motor fuel taxes, and vehicle registrations and permits. At year-end, the remaining State's commitments with contractors are as follows (expressed in thousands):

Agency – Project	Spent -to- Date	Remaining Commitment	Funding Source
Kansas Highway Patrol -			
Multi-use hanger facility at the Billard Airport	\$ 0	\$ 1,376	Federal Forfeiture Fund
Department of Social and Rehabilitation Services -			
State Security Hospital (Larned, KS)	50,121	0	Bond Series 2002N-1 to be paid from State Institutional Building Fund.
State Hospitals Rehabilitation & Repair	31,153	3,847	Bond Series 2004A-1 to be paid from the Rehabilitation and Repair Projects Fund.
Department of Administration -			
Statehouse restoration and renovation and underground parking garage	81,820	53,180	Lease Revenue Bonds secured by lease rents
Docking Building Cooling Tower Replacement	11	2,478	State General Fund
Department of Human Resources -			
Unemployment Insurance Benefits System	3,715	17,285	Bonds to be paid from federal Reed Act funds.
Adjutant General's Department -			
Readiness Center Additions/Alteration – Kansas City Armory	2,739	245	Federal funds from National Guard Bureau
Readiness Center Additions/Alteration - Topeka Armory	1,530	1,102	Federal funds
School for the Deaf -			
Dormitory Renovation to Meet Fire Code Requirements and Life Safety Issues	980	1,420	Line of Credit – Master Lease Program
Fort Hays State University -	2,337	4,163	Series 2005G Revenue Bonds
Memorial Union Renovation			
Kansas State University -			
Biosecurity Research Institute	45,150	8,250	Bonds, federal funds, gifts and grants
Haymaker Renovation	2,550	1,175	Bonds
Jardine Apartments Project	9,615	92,385	Bonds
Grain Science Center - Feed Mill	500	5,000	Private gifts
Grain Science Center - Flour Mill	7,500	500	Private gifts
Beach Art Museum Addition	976	4,024	Private gifts
Parking Garage	0	17,000	Federal funds and Bonds
Emporia State University -			
Twin Towers	3,457	4,038	State funds
Pittsburg State University -			
Stadium Renovation and Expansion	2,001	498	Private gifts
Kansas Polymer Research Center	250	5,700	Bonds (2005D Scientific Research and Development Facilities) and private gifts

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Kansas Army National Guard Readiness Center	256	15,865	Bonds, education building funds, general fees fund, student fees fund, state general fund and federal grant – KS Army National Guard
University of Kansas -			
Hashinger Hall Renovation	9,920	2,680	Bonds to be paid by housing fees
Wescoe Hall Office and Classroom Infill	210	3,490	Tuition/Restricted fees
Multicultural Resource Center	274	5,016	Restricted fees, private donations and KU Union funds
West Campus Park and Ride	4,858	5,610	Parking Fees and Revenue Bonds secured by parking fees
University of Kansas Medical Center -			
Biomedical Research Building	41,905	10,434	Bonds and gifts
Parking Garage No. 3	6,539	4,852	Bonds and gifts
Miscellanies	5,808	Unknown	University funds
Wichita State University -			
Engineering Research Lab Building.	1,640	4,144	KDFA Bonds Series 2005G
Total	<u>\$ 317,815</u>	<u>\$ 275,757</u>	

H. Interfund Receivables, Payables, and Transfers

Due from/to other funds

Due from/to other funds represent interfund accounts receivable and payable. The total of due from/to other funds at June 30, 2006, is as follows (expressed in thousands):

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 16,288	\$ 44,475
Social and Rehabilitation Fund	0	210
Transportation Fund	32,499	0
Non-major Governmental Funds	14,287	652
Non-major Enterprise Funds	0	5,755
Internal Service Funds	0	1,449
Fiduciary Funds	5,755	16,288
Total	<u>\$ 68,829</u>	<u>\$ 68,829</u>

Advances to/from other funds

Advances to/from other funds represent long-term loans from one fund to another fund. Advances at June 30, 2006, were as follows (expressed in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 0	\$ 170,049
Social and Rehabilitation Fund	80	2,414
Transportation Fund	92,689	0
Non-major Governmental Funds	80,529	3,068
Health Care Stabilization Fund	1	0
Non-major Enterprise Funds	4,000	0
Internal Service Funds	29	1,797
Total	<u>\$ 177,328</u>	<u>\$ 177,328</u>

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The interfund balances designated as due from/to other funds are short-term receivables and payables resulting from the time lag between the dates that a) interfund goods and services are provided or reimbursable expenditures occur; b) transactions are recorded in the accounting system; and c) payments between funds are made.

Net transfers by major funds are as follows (expressed in thousands):

<u>Fund</u>	<u>Net Transfers In</u>	<u>Net Transfers Out</u>
General	\$ 0	\$ 16,815
Social and Rehabilitation	412,156	0
Transportation	0	12,797
Health Policy Authority	0	670,951
Non-Major Governmental	326,237	0
Unemployment Insurance	0	1,871
Health Care Stabilization	2,065	0
Non-Major Enterprise	0	67,062
Internal Service Fund	0	4,835
Fiduciary Funds	33,873	0
Totals	<u>\$ 774,331</u>	<u>\$ 774,331</u>

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III. Detailed Notes On All Funds

I. Short-term Obligations

Short-term obligations at June 30, 2006 and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/05 Beginning Balance	Additions	Deletions	6/30/06 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 450,000	\$ 450,000	\$ 0
Accrued receivables:				
State Building Fund	0	35,593	35,593	0
Children's Initiatives Fund	0	26,746	26,746	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,216	21,216	0
27 th Paycheck	0	32,690	32,690	0
Bond Anticipation Notes:				
KDFA Series 2005-1, 4.26%	6,000	0	6,000	0
KDFA Series 2004-1, 3.10%	3,082	0	3,082	0
KDFA Series 2005-2	0	1,700	1,700	0
Total short-term obligations	<u>\$ 9,082</u>	<u>\$ 571,939</u>	<u>\$ 581,021</u>	<u>\$ 0</u>

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$450 million was issued on July 1, 2005 and redeemed on June 30, 2006.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for the State Buildings Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2006, \$22.7 million was posted to the Kansas Educational Building Fund and \$11.9 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in March 2006.

Per Senate Bill 225, Section 98(g) of the 2005 Session, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006 a receivable was posted for \$26.7 million and was reduced to zero in April 2006.

Per Senate Bill 225, Section 98(i) of the 2005 Session, on July 1, 2005, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006, a receivable was posted for \$4 million and was reduced to zero in March, 2006.

Per Senate Bill 225, Section 98(h) of the 2005 Session, on July 1, 2005, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006, a receivable was posted for \$21.2 million and was reduced to zero in December 2005.

III. Detailed Notes On All Funds

Per House Bill 2482, Section 5(g), on July 1, 2005, receivables are to be posted to the State Treasurer's receivables for the 27th Payroll in the amount of \$32.7 million. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006, a receivable was posted for \$32.7 million and was reduced to zero in June 2006.

The Kansas Development Finance Authority is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the KDFA has authorized the issuance of notes in anticipation of revenue bond financing. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

The \$6 million KDFA Bond Anticipation Note, Series 2005-1, was issued to fund a capital improvement project for the Kansas Army National Guard Armory. The loan was provided by the Pooled Money Investment Board for a term of 365 days (due June 15, 2006) at an interest rate of 4.26%. Permanent financing was obtained with the issuance and sale of revenue bonds, KDFA Series 2005H-3 on May 1, 2006, in the amount of \$21 million. The bond anticipation note was subsequently redeemed on November 22, 2005.

The \$3.08 million KDFA Bond Anticipation Note, Series 2004-1, was issued to fund the Kansas Department of Labor unemployment insurance benefit system upgrade project. The loan was provided by the Pooled Money Investment Board for a term of 534 days (due April 1, 2006) at an interest rate of 3.10%. Permanent financing was obtained with the issuance and sale of revenue bonds, KDFA Series 2005-H-2 on May 1, 2006, in the amount of \$21 million. The bond anticipation note was subsequently redeemed on May 1, 2006.

The \$1.7 million KDFA Bond Anticipation Note, Series 2005-2, was issued to fund Public Broadcasting Council Digital Conversion Project for the Department of Administration. The loan was provided by the Pooled Investment Board for a term of 65 days (due October 1, 2006) at an interest rate of 4.63%.

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J. Long-term Obligations

A summary of long-term obligations at June 30, 2006 for the fiscal year then ended is as follows (expressed in thousands):

	Government Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 2,764,949	\$ 720,978	\$ 691,253	\$ 4,177,180
Sales tax limited obligation bonds	232,322	0	0	232,322
Notes payable	20,448	0	109,783	130,231
Capital leases payable	152,483	0	4,666	157,149
Arbitrage rebate payable	93	963	80	1,136
Claims and judgements	68,033	186,871	0	254,904
Compensated absences	109,214	47	49,655	158,916
Other	0	12,961	103,761	116,722
Total long-term obligations	\$ 3,347,542	\$ 921,820	\$ 959,198	\$ 5,228,560

Long-term obligations at June 30, 2006 and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/05 Beginning Balance	Additions	Deletions	6/30/06 Ending Balance	Amounts Due In One Year
Governmental Activities									
<u>Revenue bonds payable:</u>									
KDFA Series 1996 SK-1	1996	3.30 – 4.75%	2006	\$ 8,890	\$ 1,065	\$ 0	\$ 1,065	\$ 0	\$ 0
KDFA Series 1998 V	1999	4.25 – 5.00%	2008	11,195	4,305	0	1,365	2,940	1,435
KDFA Series 1999 E	1999	4.00 – 5.00%	2009	34,470	15,310	0	3,600	11,710	3,745
KDFA Series 2001 M	2002	3.50 – 5.00%	2011	32,390	22,145	0	3,305	18,840	3,435
KDFA Series 2003 H	2004	1.41 – 5.21%	2014	40,250	36,820	0	3,495	33,325	3,585
KDFA Series 2003 J	2004	2.00 – 5.25%	2025	6,135	6,135	0	6,135	0	0
KDFA Series 2004 A	2004	2.00 – 5.00%	2024	50,730	49,255	0	7,410	41,845	1,640
KDFA Series 2004 C	2004	3.43 – 5.50%	2034	500,000	500,000	0	0	500,000	0
KDFA Series 2004 G-1 & G-2	2005	2.50 – 5.13%	2024	1,545	1,545	0	430	1,115	265
KDFA Series 2005 H	2006	3.25 – 5.00%	2032	31,270	0	31,270	45	31,225	1,780
KDFA Series 2005 N	2006	3.5 0– 4.00%	2015	28,165	0	28,165	2,905	25,260	2,420
KDFA Series 2006A	2006	4.00 – 5.00%	2027	209,490	0	209,490	0	209,490	0
KDOT Series 1993 A	1993	2.65 – 5.63%	2012	147,405	20,080	0	1,000	19,080	11,920
KDOT Series 1998	1998	3.65 – 5.50%	2015	189,195	105,850	0	15,000	90,850	15,845
KDOT Series 1999	2000	4.40 – 5.75%	2019	325,000	6,655	0	6,655	0	0
KDOT Series 2000 A, B & C	2001	4.50 – 5.85%	2021	200,000	200,000	0	0	200,000	0
KDOT Series 2002 A	2003	Variable	2012	199,600	152,825	0	24,100	128,725	25,255
KDOT Series 2002 B & C	2003	3.39%	2020	320,005	320,005	0	0	320,005	0
KDOT Series 2002 D	2003	Variable	2012	88,110	88,110	0	0	88,110	0
KDOT Series 2003 A & B	2004	3.13 – 5.00%	2014	248,190	248,190	0	0	248,190	0
KDOT Series 2003 C	2004	3.36%	2016	150,275	150,275	0	0	150,275	0
KDOT Series 2004 A	2004	4.50 – 5.50%	2023	250,000	250,000	0	0	250,000	0
KDOT Series 2004 B	2005	Variable	2025	200,000	200,000	0	0	200,000	0
KDOT Series 2004 C	2005	Variable	2025	147,000	147,000	0	0	147,000	0
KDOT Series 2005 H	2006	3.25 – 5.00%	2032	56,905	0	56,905	335	56,570	1,135
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	39,779	10,784	6,608	43,955	0
Unamortized deferred refunding difference				0	(61,827)	(1,074)	(9,340)	(53,561)	0
Total revenue bonds payable				3,476,215	2,503,522	335,540	74,113	2,764,949	72,460
<u>Sales tax limited obligation bonds:</u>									
1999 KISC	1999	4.20 – 5.25%	2027	17,496	17,496	0	0	17,496	183
2001 Project Area B	2001	4.00 – 5.10%	2020	20,639	20,639	0	3,096	17,543	281
2001 NFM	2001	7.27%	2006	46,300	45,860	0	45,860	0	0
2001 Cabelas Series C-1	2001	Variable	2006	37,080	33,500	0	33,500	0	0
2001 Cabelas Series C-2	2001	7.27%	2006	9,720	8,453	0	8,453	0	0
2002 Subordinate KISC	2002	5.00 – 8.00%	2022	4,550	3,654	0	580	3,074	371
RED Development	2003	Variable	2006	38,912	31,471	0	31,471	0	0
Beaumont Hotel	2004	Variable	2006	2,160	2,130	0	2,130	0	0
RED 2005	2005	Variable	2006	10,035	10,035	0	10,035	0	0
400 Acres Refunding	2005	3.25 – 5.54%	2020	3,931	3,931	0	0	3,931	72
1 st Lien 2005A Turbo	2006	4.67%	2009	16,708	0	16,708	418	16,290	0
1 st Lien 2005B Turbo	2006	3.75%	2012	36,281	0	36,281	0	36,281	0
1 st Lien 2005C Turbo	2006	3.85%	2013	12,409	0	12,409	0	12,409	0
2 nd Lien 2005 Turbo	2006	4.75 – 5.00%	2020	125,298	0	125,298	0	125,298	0
Total sales tax limited obligation bonds				381,519	177,169	190,696	135,543	232,322	907
<u>Notes payable:</u>									
Water supply storage assurance				1,972	462	0	230	232	232
Water supply storage in Federal reservoirs				27,418	18,465	0	476	17,989	493
Landon State Office Building				11,245	1,125	0	562	563	562
Wildlife & Parks – Tuttle Creek				1,264	1,264	0	500	764	764
Printing plant				3,857	1,075	0	175	900	177
Total notes payable				45,756	22,391	0	1,943	20,448	2,228
Capital leases payable					159,781	3,413	10,711	152,483	12,650
Arbitrage rebate payable					388	19	314	93	0
Claims and judgments					54,642	203,281	189,890	68,033	46,861
Compensated absences					100,030	9,184	0	109,214	57,062
Total Governmental Activities				\$ 3,017,923	\$ 742,133	\$ 412,514	\$ 3,347,542	\$ 192,168	

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/05 Beginning Balance	Additions	Deletions	6/30/06 Ending Balance	Amounts Due In One Year
Business-type Activities									
<u>Revenue bonds payable:</u>									
KDFA Series 1997 I & 2	1998	4.13 - 5.00%	2020	\$ 45,420	\$ 16,440	\$ 0	\$ 1,770	\$ 14,670	\$ 1,845
KDFA Series 1997 I & II	1997	4.10 - 5.60%	2017	39,260	6,225	0	4,380	1,845	1,845
KDFA Series 1998 I & 2	1999	3.88 - 5.25%	2021	39,690	17,730	0	1,465	16,265	1,540
KDFA Series 1998 II	1998	3.75 - 5.25%	2020	80,500	69,410	0	31,170	38,240	2,725
KDFA Series 2000 I & II	2000	4.60 - 6.13%	2022	82,915	22,825	0	4,620	18,205	2,995
KDFA Series 2000 I & 2	2000	4.75 - 5.75%	2023	53,500	24,870	0	1,760	23,110	1,850
KDFA Series 2001 I & II	2002	3.00 - 5.50%	2022	141,045	134,800	0	5,880	128,920	3,095
KDFA Series 2002 I & 2	2002	4.00 - 5.50%	2024	51,805	29,885	0	1,670	28,215	1,735
KDFA Series 2002 II	2003	2.26 - 5.50%	2024	101,575	94,990	0	27,195	67,795	4,700
KDFA Series 2004 I & II	2004	2.00 - 5.25%	2023	50,140	49,140	0	1,000	48,140	1,000
KDFA Series 2004 I & 2	2005	3.00 - 5.00%	2026	176,010	176,010	0	380	175,630	3,170
KDFA Series 2005 CW	2005	3.00 - 5.00%	2027	118,860	0	118,860	1,905	116,955	3,140
KDFA Series 2005 TR	2006	3.00 - 5.00%	2026	32,690	0	32,690	0	32,690	200
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	26,962	9,008	4,942	31,028	0
Unamortized deferred refunding difference				0	(19,094)	(1,636)	0	(20,730)	0
Total revenue bonds payable				1,013,410	650,193	158,922	88,137	720,978	29,840
Arbitrage rebate payable					2,003	434	1,474	963	257
Claims and judgments					187,474	297	900	186,871	14,853
Compensated absences					49	0	2	47	41
Other					11,393	1,568	0	12,961	0
Total Business-type Activities					\$ 851,112	\$ 161,221	\$ 90,513	\$ 921,820	\$ 44,991
Component Units									
<u>Revenue bonds payable:</u>									
Board of Regents Series 1969	1970	3.00 - 7.13%	2009	\$ 1,100	\$ 170	\$ 0	\$ 45	125	\$ 45
KDFA Series 1989 E	1990	6.00 - 7.25%	2010	1,401	558	35	131	462	128
KDFA Series 1993 L	1994	3.40 - 5.15%	2009	3,975	625	0	85	540	45
KDFA Series 1995 E	1996	4.10 - 5.20%	2007	2,734	225	0	200	25	25
KDFA Series 1995 K	1996	3.75 - 5.40%	2016	3,835	2,720	0	160	2,560	170
KDFA Series 1996 A	1996	4.00 - 5.20%	2008	5,105	505	0	175	330	175
KDFA Series 1996 J	1997	3.85 - 5.40%	2010	5,600	1,195	0	350	845	345
KDFA Series 1997 C	1997	4.70 - 5.30%	2011	3,255	1,625	0	250	1,375	260
KDFA Series 1997 G-1 & G-2	1998	3.75 - 5.50%	2012	109,281	22,820	47	7,905	14,962	7,000
KDFA Series 1998 B	1998	3.90 - 5.00%	2018	9,320	7,220	0	355	6,865	375
KDFA Series 1998 D	1998	3.70 - 5.05%	2023	4,290	3,580	0	110	3,470	120
KDFA Series 1998 E	1999	3.40 - 4.90%	2024	4,750	4,225	0	120	4,105	125
KDFA Series 1998 H	1998	3.75 - 4.80%	2013	2,320	1,510	0	135	1,375	140
KDFA Series 1998 L	1999	3.80 - 5.00%	2019	5,590	4,450	0	225	4,225	235
KDFA Series 1998 P	1999	3.00 - 4.85%	2019	3,650	2,975	0	130	2,845	140
KDFA Series 1999 A-1 & A-2	1999	3.20 - 5.00%	2012	28,210	19,370	0	3,180	16,190	3,330
KDFA Series 1999 B	1999	3.60 - 5.00%	2019	2,920	2,410	0	115	2,295	120
KDFA Series 1999 C	1999	4.00 - 5.10%	2019	3,085	2,555	0	120	2,435	125
KDFA Series 1999 D	1999	4.00 - 4.75%	2014	11,170	8,190	0	2,580	5,610	400
KDFA Series 1999 H	2000	3.75 - 5.63%	2020	17,830	15,085	0	10,655	4,430	650
KDFA Series 1999 N	2000	4.00 - 5.88%	2035	21,645	1,590	0	285	1,305	300
KDFA Series 2000 B	2000	4.70 - 5.90%	2015	5,705	4,395	0	300	4,095	315
KDFA Series 2000 D	2001	4.60 - 5.60%	2015	1,735	1,325	0	90	1,235	95
KDFA Series 2000 R	2001	4.35 - 4.60%	2005	4,530	995	0	995	0	0
KDFA Series 2000 T	2001	4.35 - 5.13%	2015	2,090	1,660	0	1,660	0	0
KDFA Series 2000 V	2001	4.35 - 5.38%	2021	16,370	13,415	0	8,265	5,150	1,050
KDFA Series 2001 B	2001	3.65 - 5.20%	2021	2,805	2,435	0	105	2,330	110
KDFA Series 2001 D	2001	4.25 - 5.25%	2021	48,895	42,705	0	1,795	40,910	1,885
KDFA Series 2001 F	2001	3.30 - 5.50%	2012	29,905	21,740	0	2,900	18,840	3,050
KDFA Series 2001 J	2002	3.50 - 4.30%	2013	5,300	3,685	0	460	3,225	475
KDFA Series 2001 N	2001	4.25 - 5.25%	2014	11,640	7,705	0	1,085	6,620	1,135
KDFA Series 2001 S	2002	4.13 - 5.50%	2021	18,955	15,350	0	1,135	14,215	1,190
KDFA Series 2001 U	2002	3.10 - 5.00%	2021	10,295	8,485	0	550	7,935	575
KDFA Series 2001W	2002	3.00 - 5.00%	2022	49,865	45,905	0	3,330	42,575	1,705
KDFA Series 2002 A	2002	3.50 - 5.00%	2027	26,560	23,710	0	1,115	22,595	1,150
KDFA Series 2002 C	2002	3.00 - 5.00%	2022	15,830	14,655	0	610	14,045	630
KDFA Series 2002 H	2003	2.50 - 4.70%	2022	3,765	3,325	0	145	3,180	150
KDFA Series 2002 J-1 & J-2	2003	3.39 - 3.58%	2035	33,355	32,810	0	760	32,050	790
KDFA Series 2002 K	2003	4.30 - 5.00%	2023	5,120	5,120	0	0	5,120	0
KDFA Series 2002 N	2003	3.00 - 5.25%	2023	52,075	49,295	0	1,845	47,450	1,905
KDFA Series 2002 P	2003	3.00 - 5.00%	2021	12,150	11,235	0	480	10,755	490
KDFA Series 2003 A-1 & A-2	2003	1.80 - 5.50%	2023	2,610	2,440	0	85	2,355	100
KDFA Series 2003 C	2003	4.67 - 5.00%	2033	72,670	69,780	0	1,500	68,280	1,585
KDFA Series 2003 D-1 & D-2	2003	2.00 - 4.70%	2028	6,470	6,080	0	205	5,875	210
KDFA Series 2003 J	2004	2.00 - 5.25%	2025	34,100	34,100	0	2,405	31,695	1,045
KDFA Series 2004 D	2005	3.00 - 4.75%	2020	1,195	1,195	0	0	1,195	0
KDFA Series 2004 F	2005	2.00 - 5.25%	2012	44,860	44,105	0	75	44,030	1,400
KDFA Series 2004 G-1 & G-2	2005	2.50 - 5.13%	2024	19,795	18,825	0	700	18,125	740
KDFA Series 2005 A	2005	3.00 - 5.00%	2035	44,535	44,535	0	0	44,535	840
KDFA Series 2005 D	2005	3.79 - 5.18%	2022	66,530	66,530	0	1,000	65,530	6,820
KDFA Series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	19,360	0	0	19,360	400
KDFA Series 2005 F	2006	3.25 - 4.40%	2026	8,930	0	8,930	0	8,930	0
KDFA Series 2005 G	2006	3.30 - 4.60%	2026	7,790	0	7,790	0	7,790	0
KDFA Series 2006 B	2006	3.50 - 4.13%	2021	9,790	0	9,790	0	9,790	0

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/05 Beginning Balance	Additions	Deletions	6/30/06 Ending Balance	Amounts Due In One Year
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	6,031	(196)	719	5,116	0
Unamortized Deferred Refunding Difference				0	0	(55)	(3)	(52)	0
Total Revenue Bonds Payable				<u>946,646</u>	<u>726,534</u>	<u>26,341</u>	<u>61,622</u>	<u>691,253</u>	<u>44,093</u>
<u>Notes payable:</u>									
KSU Grain Science Center				3,875	2,875	0	525	2,350	0
KSU line of credit – oracle project				2,590	923	523	778	668	669
Component units of university system				166,069	65,928	45,721	4,884	106,765	6,448
Total notes payable				<u>172,534</u>	<u>69,726</u>	<u>46,244</u>	<u>6,187</u>	<u>109,783</u>	<u>7,117</u>
Arbitrage rebate payable					62	18	0	80	0
Capital leases					0	4,674	8	4,666	477
Compensated absences					47,919	1,736	0	49,655	44,570
Other					106,726	2,396	5,361	103,761	5,695
Total Component Units					<u>\$ 950,967</u>	<u>\$ 81,409</u>	<u>\$ 73,178</u>	<u>\$ 959,198</u>	<u>\$ 101,952</u>

State of Kansas
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III. Detailed Notes On All Funds

The following table presents annual debt service requirements for those long-term debts outstanding at June 30, 2006, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Revenue bonds:</u>						
2007	\$ 72,460	\$ 133,686	\$ 29,840	\$ 34,337	\$ 44,093	\$ 31,197
2008	77,215	128,908	34,370	32,964	43,964	29,150
2009	89,465	122,459	36,855	31,421	43,941	27,206
2010	133,620	114,893	38,755	29,796	45,243	25,237
2011	139,640	108,715	40,870	27,940	46,465	23,177
2012-2016	673,845	438,654	220,145	108,511	165,912	90,236
2017-2021	695,645	299,977	201,310	54,694	159,865	53,346
2022-2026	628,840	126,949	107,805	11,020	85,025	19,772
2027-2031	163,005	52,850	730	16	33,835	8,059
2032-2036	100,820	11,057	0	0	17,846	1,609
Unamortized premium	43,955	0	31,028	0	5,116	0
Unamortized deferred refunding	(53,561)	0	(20,730)	0	(52)	0
Totals	<u>2,764,949</u>	<u>1,538,148</u>	<u>720,978</u>	<u>330,699</u>	<u>691,253</u>	<u>308,989</u>
<u>Sales tax limited obligation bonds:</u>						
2007	907	10,606	0	0	0	0
2008	5,745	10,481	0	0	0	0
2009	6,976	10,269	0	0	0	0
2010	7,735	9,985	0	0	0	0
2011	13,069	9,585	0	0	0	0
2012-2016	78,343	39,674	0	0	0	0
2017-2021	110,005	18,759	0	0	0	0
2022-2026	5,894	4,694	0	0	0	0
2027-2028	3,648	4,228	0	0	0	0
Totals	<u>232,322</u>	<u>118,281</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Notes payable:</u>						
2007	2,228	739	0	0	7,117	4,571
2008	688	651	0	0	8,816	4,185
2009	707	632	0	0	7,583	3,799
2010	727	612	0	0	5,791	3,523
2011	748	591	0	0	5,989	4,828
2012-2016	3,134	2,637	0	0	48,176	14,396
2017-2021	3,727	2,044	0	0	13,923	4,703
2022-2026	3,993	1,333	0	0	12,388	1,273
2027-2031	3,014	625	0	0	0	0
2032-2036	921	153	0	0	0	0
2037-2041	561	46	0	0	0	0
Totals	<u>20,448</u>	<u>10,063</u>	<u>0</u>	<u>0</u>	<u>109,783</u>	<u>41,278</u>
Capital leases payable	152,483	78	0	0	4,666	1,301
Long-term debt without scheduled debt service:						
Arbitrage rebate payable	93	0	963	0	80	0
Claims and judgments	68,033	0	186,871	0	0	0
Compensated absences	109,214	0	47	0	49,655	0
Other	0	0	12,961	0	103,761	0
Total long-term obligations	<u>\$ 3,347,542</u>	<u>\$ 1,666,570</u>	<u>\$ 921,820</u>	<u>\$ 330,699</u>	<u>\$ 959,198</u>	<u>\$ 351,568</u>

III. Detailed Notes On All Funds

General Obligation Bonds

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

Revenue Bonds

The **Kansas Development Finance Authority** (KDFA) was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The KDFA has issued numerous outstanding series of bonds. Please reference Note J. above for KDFA revenue bonds.

The **Kansas Department of Transportation** (KDOT) has issued 15 outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Comprehensive Transportation Program. The State's Comprehensive Transportation Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 1999 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees.

The coupon interest rate on outstanding bonds varies from 2.125 percent to 5.5 percent. In addition, the Series 2000 B and C Bonds and Series 2002 B, C and D Bonds were issued as variable rate instruments whose rates change on a daily, weekly, or 28-day basis depending on their respective individual modes. During the year, interest rates ranged from 0.83 percent to 2.95 percent on the daily adjustable bonds, from 0.9 percent to 2.7 percent on the weekly adjustable bonds and 1.19 percent to 2.95 percent on the 28-day adjustable. The 2000 B and C Bonds and 2002 B, C, D and 2004 C Bonds are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, the liquidity provider has agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2006, all bonds tendered have been remarketed. However, since there is not a long-term financing option in place at June 30, 2006 for tendered bonds, the Series 2000 B and C Bonds, 2002 B, C and D Bonds and 2004 C Bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

The **Board of Regents of the State of Kansas** (Regents) has issued one outstanding series of Revenue Bonds to construct a dormitory at Emporia State University. Principal and interest payments on the bonds are paid from revenues collected from the operation of the dormitory.

Sales Tax Limited Obligation Bonds

In March 1998, the Unified Government of Wyandotte County/Kansas City, KS established the Prairie Delaware Redevelopment District. The District was created for development of a major tourism area, including the Kansas International Speedway. In connection with various projects in the District, the Unified Government has issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the Unified Government and the State of Kansas have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the Unified Government and the State of Kansas, based on each entity's respective share of sales taxes generated within the District. The State of Kansas' proportional share is approximately 72 percent. Therefore, 72 percent of the outstanding obligation on each STAR bond issue has been recorded with the State of Kansas' long-term debt. This proportional share may change in the future if the sales taxes assessed by the local or state governments are modified. Further details regarding STAR bonds may be found in the chart at the beginning of Note III, Section J.

III. Detailed Notes On All Funds

Special Obligation and Private Activity Bonds

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special, limited obligations of KDFA, neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2006 balance sheet. KDFA's special obligation bonds at June 30, 2006 total \$2,081,948,483.

Private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's June 30, 2006 balance sheet. KDFA's private activity bonds at June 30, 2006 total \$982,152,906.

Notes Payable

PMIB is authorized as directed by statute to loan funds from the State treasury to state agencies for various capital projects including the purchase of the State's printing plant and the renovation and purchase of the Landon state office building. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section J, Long-term Obligations - Primary Government, Governmental Funds and Section I, Short-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 23 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2006 for portions of the storage designated as "future use" storage.

Lease Commitments

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2006 are as follows (expressed in thousands):

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<u>Fiscal Year</u>	
2007	\$ 9,615
2008	8,130
2009	6,657
2010	5,712
2011	5,433
2012-2016	24,195
2017-2021	2,989
Total future minimum lease payments	<u>\$ 62,731</u>
 Rent expenditures/expenses for operating leases for the year ended June 30, 2006	 <u>\$ 9,551</u>

Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the statement of net assets at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2006 (expressed in thousands):

Year Ending June 30	Governmental Activities	
	Principal	Interest
2007	\$ 12,650	\$ 7,308
2008	9,789	6,353
2009	8,980	5,917
2010	8,228	5,511
2011	7,701	5,135
2012-2016	40,415	23,774
2017-2021	22,729	13,477
2022-2026	19,530	8,069
2027-2031	22,461	2,954
Total	<u>\$ 152,483</u>	<u>\$ 78,498</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2006, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 9,926
Buildings	91,474
Equipment	69,514
Less: Accumulated depreciation	(28,992)
Total	<u>\$ 141,922</u>

III. Detailed Notes On All Funds

Master Lease Purchase Program

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

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Defeasance of Debt

Primary Government

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2006 and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/05 Beginning Balance	Current Year Defeased	Payments	6/30/06 Ending Balance
Governmental Activities				
KDOT Series 1992	\$ 15,820	\$ 0	\$ 15,820	\$ 0
KDOT Series 1993 A	17,930	0	0	17,930
KDOT Series 1994	52,110	0	7,715	44,395
KDOT Series 1994 A	6,715	0	0	6,715
KDOT Series 1998	58,190	0	0	58,190
KDOT Series 1999	318,345	0	7,425	310,920
KDOT Series 2000 A	150,000	0	0	150,000
KDFA Series 2003 J	0	5,790	0	5,790
KDFA Series 2004 A	0	5,810	0	5,810
Total governmental activities	<u>\$ 619,110</u>	<u>\$ 11,600</u>	<u>\$ 30,960</u>	<u>\$ 599,750</u>
Business-type Activities				
KDFA Series 1997 1 & 2	\$ 21,175	\$ 0	\$ 0	\$ 21,175
KDFA Series 1997 I	0	2,680	0	2,680
KDFA Series 1997 II	26,515	0	0	26,515
KDFA Series 1998 1 & 2	16,110	0	0	16,110
KDFA Series 1998 II	0	28,670	0	28,670
KDFA Series 2000 I	0	1,965	0	1,965
KDFA Series 2000 II (Nov.)	54,945	0	0	54,945
KDFA Series 2000 1 & 2	24,635	0	0	24,635
KDFA Series 2002 II	4,000	25,635	0	29,635
KDFA Series 2002 1 & 2	20,315	0	0	20,315
Total business-type activities	<u>\$ 167,695</u>	<u>\$ 58,950</u>	<u>\$ 0</u>	<u>\$ 226,645</u>

Information for bonds defeased in the current fiscal year is as follows (expressed in thousands):

Bond Issue	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
Governmental Activities				
KDFA Series 2003 J	\$ 5,790	\$ 5,790	\$ 29	\$ (159)
KDFA Series 2004 A	5,810	5,810	18	(4)
Total defeased	<u>\$ 11,600</u>	<u>\$ 11,600</u>	<u>\$ 47</u>	<u>\$ (163)</u>
Business-type Activities				
KDFA Series 1997 1 & 2, 1998 2, 2000 1 & 2, 2001 1& 2, 2002 2	\$ 58,950	\$ 58,950	\$ 2,473	\$ 3,562
Total defeased	<u>\$ 58,950</u>	<u>\$ 58,950</u>	<u>\$ 2,473</u>	<u>\$ 3,562</u>

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Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2006 and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/05 Beginning Balance	Current Year Defeased	Payments	6/30/06 Ending Balance
FHSU Series 1968	\$ 60	\$ 0	\$ 20	\$ 40
KDFA Series 1997 G-1 & G-2	43,935	0	16,435	27,500
KDFA Series 1999 D	0	1,920	0	1,920
KDFA Series 1999 H	0	10,030	0	10,030
KDFA Series 1999 N	19,240	0	0	19,240
KDFA Series 2000 T	0	1,540	0	1,540
KDFA Series 2000 V	0	7,215	0	7,215
KDFA Series 2001 N	1,540	0	300	1,240
KDFA Series 2001 W	0	1,610	0	1,610
KSU Series 1966	104	0	104	0
Total component units	<u>\$ 64,879</u>	<u>\$ 22,315</u>	<u>\$ 16,859</u>	<u>\$ 70,335</u>

Information for bonds defeased in the current fiscal year is as follows (expressed in thousands):

Bond Issue	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
KDFA Series 2000 T	\$ 1,540	\$ 1,540	\$ 32	\$ 10
KDFA Series 2001 W	1,610	1,610	22	(14)
KDFA Series 2000 V	7,215	7,215	220	136
KDFA Series 1999 H	10,030	10,030	331	94
KDFA Series 1999 D	1,920	1,920	13	(383)
Total defeased	<u>\$ 22,315</u>	<u>\$ 22,315</u>	<u>\$ 618</u>	<u>\$ (157)</u>

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$93,000 for Governmental Activities, \$963,000 for Business-type Activities, and \$80,000 for Component Units.

*The economic gain is defined as the difference between the present values of the old and new debt service payments.

**The aggregate debt service reduction is defined as the difference between the refunded debt and the refunding debt.

III. Detailed Notes On All Funds

Derivative Instruments

Interest rate swap

KDFA Series 2002 J-2

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in August 2002, the Kansas Development Finance Authority entered into an interest rate swap in connection with its 2002 J-2 lease revenue bonds. The intention of the swap was to effectively change the variable interest rate of the bonds to a synthetic fixed rate of 3.39 percent.

Terms. The lease revenue bonds mature in December 2034 and the related swap agreement matures in December 2009. The swap's notional amount of \$22.58 million is equal to the par amount of the variable rate bonds. The swap agreement was executed at the same time the bonds were issued. Under the terms of the swap agreement, the KDFA pays the counterparty a fixed rate of 3.39 percent and receives a variable payment computed on the Bond Market Association Municipal Swap Index™ (BMA).

Fair Value. Because interest rates declined subsequent to the date of execution, the swap had a negative indicative value of \$332,814 as of June 30, 2006.

Kansas Department of Transportation

Objective of the swaps. In order to protect against the potential of rising interest rates, the Department of Transportation entered into three separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Department would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2006, are included below. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
KDOT Series 2002 D	\$ 86,875	12/17/02	5.240%	67% of USD-LIBOR	\$ 93	03/01/12	Aa3/A+
KDOT Series 2002 B & C*	200,000	10/23/02	3.164%	67% of USD-LIBOR	(5,646)	09/01/19	Aa3/A+
KDOT Series 2002 B & C*	120,005	10/23/02	3.164%	67% of USD-LIBOR	(3,389)	09/01/19	Aa1/AA-
KDOT Series 2003 C	150,275	12/03/03	3.359%	71% of USD-LIBOR**	(4,835)	09/01/15	Aa3/A+
KDOT Series 2004 B & C	147,000	11/23/04	3.571%	63.5% of USD-LIBOR + .29%	(8,298)	09/01/24	Aa3/A+
	<u>\$ 704,155</u>				<u>\$ (22,075)</u>		

* - two counterparties

** - or the lessor of the Actual Bond Rate until September 1, 2010

KDOT Series 2002 D Swap - In connection with the issuance of \$86,875 of variable-rate bonds to refund outstanding KDOT Series 1993A bonds, on August 27, 2002 the Department of Transportation competitively bid the sale of an option on a floating-to-fixed 67 percent of LIBOR interest rate swap. Merrill Lynch provided the winning bid with a swaption premium amount of \$11,905 to be paid to KDOT in two installments of \$6,500 on March 1, 2006 and \$5,405 on March 1, 2007. The swaption allowed KDOT to effect a synthetic forward refunding of the Bonds to lock in savings based on then current market conditions. Under U.S. tax law, the Bonds were not eligible for a traditional current refunding until December 1, 2002. The terms of the option were structured to mirror the terms on the optional redemption feature on the Series 1993A Bonds. The swaption generated expected PV savings of \$10,360 (11.92 percent of the Bonds' par amount). Merrill Lynch has since exercised the option resulting in a floating-to-fixed 67 percent of LIBOR interest rate swap.

III. Detailed Notes On All Funds

KDOT Series 2002B & C Swap - In connection with the issuance of \$320,005 of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002 the Department of Transportation competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200,000 of notional principal and Salomon Smith Barney was awarded \$120,005 of notional principal. The executed transaction consisted of a \$320,005 17-year amortizing interest rate swap under which KDOT pays Goldman/Salomon a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

KDOT Series 2003C Swap - In connection with the issuance of \$150,275 of variable-rate KDOT Series 2003C Highway Revenue Refunding Bonds, on November 20, 2003 the KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150,275 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.359 percent and receives the lesser of the Actual Bond Rate and 71 percent of 1-mo LIBOR until September 1, 2010, and 71 percent of LIBOR thereafter. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

KDOT Series 2004B and C Swaps - In connection with the issuance of \$147,000 of variable-rate Series 2004B and 2004C Highway Revenue Bonds, on November 12, 2004 the KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147,000 20-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.571 percent and receives 63.5 percent of LIBOR plus 29 basis points. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

Fair Value. These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2006, the State has no credit risk exposure on all of its outstanding swaps because the swaps had negative or very small fair values meaning the counterparties are exposed to the State in the amount of the derivatives' fair value. However, should interest rates change and the fair values of the swaps become positive, the State could be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Basis risk. Basis risk is the risk that the interest rate paid by the Department of Transportation on the underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The Department of Transportation bears basis risk on each of its swaps. The Swaps have basis risk since KDOT receives a percentage of LIBOR to offset the actual variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination risk. The Department of Transportation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, KDOT would be liable to the counterparty for a payment equal to the swap's fair value.

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

K. Revisions to Beginning Net Assets

Various adjustments were made to the beginning fund balances to correct errors in the prior year financial statements. The following table summarizes the changes to the fund balances as reported in the prior year financial statements (expressed in thousands):

	Governmental Funds	Business Type	Component Units
June 30, 2005 fund balance as previously reported	\$ 9,287,022	\$ 772,123	\$ 2,875,754
<i>Revisions</i>			
Imprest fund	(42)	0	0
Inventory	6,381	0	0
Cash	743	0	2,266
STAR bond	(3,931)	0	0
Internal Service	379	0	0
KDOT – Communication System Revolving Fund	475	(475)	0
KDOT- Transportation Revolving Fund	(25,607)	25,607	0
Investment	0	9	(293)
Lottery	0	500	0
Health Care Stabilization Fund	0	2,390	0
Capital asset	0	0	(439)
State University System	0	0	(53,513)
Kansas Housing Resource Corp.	0	0	(605)
June 30, 2005 fund balance as restated	<u>\$ 9,265,420</u>	<u>\$ 800,154</u>	<u>\$ 2,823,170</u>

The Health Care Stabilization Fund revision inadvertently reported \$2.4 million in fiscal year 2005 statements as revenue rather than accounts receivable. The State University System changes would increase fiscal year 2005 revenue by \$16.5 million and also increase fiscal year 2005 expenditures by \$8.4 million.

The Sales Tax Limited Obligation Bond (STAR bond) series, 400 Acres Refunding, was inadvertently omitted in the previous year. KDOT revolving funds were moved from governmental funds to business-type funds to properly reflect their usage. The Lottery changed Multi-State Lottery Game from unreserved to other receivable. The State University System revisions correct a variety of items that were overstated in the previous year. The Kansas Housing Resource Corporation (KHRC) changed their capitalization threshold from \$1,000 to \$5,000 which decreased assets. In addition, KHRC restated program loans receivable included in the allowance for program loan receivable losses at June 30, 2005 and also restated excess HOME match received from other sources as unearned revenue. The other revisions listed above are corrections to previous fund balances. These revisions increase the beginning net asset balance of business-type funds and decrease the beginning net asset balance in governmental funds and component unit funds. The revisions have no effect on fiscal year 2006 revenue or expenses.

IV. Other Information

A. Risk Management

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities. In general, the State is self-insured for certain health care claims (prescription drug and dental plus three of seven medical health plan options), State employee workers' compensation, long-term disability, tort liability, personal property, and real estate property losses up to \$500,000 (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles, and a statewide commercial policy on real property valued at \$500,000 or more (except where separate coverage is required by bond covenant). Insurance settlements have not exceeded insurance coverage for the past three fiscal years.

Coverage for health care claims for prescription drugs and dental claims plus three of seven medical health plan options and is provided by The Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund for all active employees, and The Post Employment Health and Dental Care Claims Health and Hospitalization Fund for post-employment populations (retirees). Risk is managed by the performance of full experience studies twice a year. The liability for unpaid claims is the plan reimbursement for services rendered or prescriptions received where the payment to the provider, the member, or the claims administrator has not occurred. These liabilities are estimated by analyzing the prior payment patterns for the same coverage or medical option.

The State Self-insurance Fund (SSIF) is self-insured and self-administered for providing workers' compensation coverage to the State's employees. The agencies make contributions to the SSIF to cover projected losses and net expenses. The SSIF also maintains a partial reserve to reduce the likelihood of additional required contributions due to adverse loss experience. The liability represents results from an annual actuarial study for claims reported but unpaid plus an estimate for claims incurred but not reported.

The remaining risk management activities of the State are included in the State General Fund. The State has not encountered difficulty in resolving past losses by using resources available at the time the loss occurred.

The Tort Claims Fund (TCF) provides payment of compromises, settlements, and final judgments arising from claims against the State or an employee of the State under the Kansas Tort Claims Act, and costs of defending the State or an employee. When the balance in the TCF is insufficient to pay a claim, a transfer is made from the State General Fund to the TCF. The maximum claim liability allowed under The Kansas Tort Claims Act is \$500,000 per occurrence or accident. At June 30, 2006 there were no material claims incurred but unpaid.

The State's self-insurance program covers all personal property losses and real estate property losses up to \$500,000,000 (except where separate coverage is required by bond covenant). Claims in excess of \$500,000,000 are covered by commercial insurance under a statewide policy. The statewide policy has a limit of \$100,000,000 per occurrence for most buildings except flood and earthquake, which are applied as annual aggregates separately to each peril, and a deductible of \$5,000,000 per occurrence for most buildings. For the four buildings in the Capitol Complex, the limit is \$200,000,000 per occurrence. The self-insurance program for personal and real estate property loss represents an estimate of amounts to be paid from currently expendable available financial resources. At June 30, 2006 there was one occurrence with known material claims incurred but unpaid (University of Kansas windstorm).

Liabilities of the funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of payments), and other economic

State of Kansas
Notes to the Financial Statements
June 30, 2006

IV. Other Information

and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

The following table presents the changes in claims liability balances (both current and non-current) during the current fiscal year ended June 30, 2006 (expressed in thousands):

	Claims Liability Beginning Balance	Plus: Current Year Claims and Changes in Estimates	Less: Claim Payments	Claims Liability Ending Balance	Non-current Liability	Current Liability
<i>Current fiscal year</i>						
State Self-insurance Fund	\$ 27,159	\$ 22,082	\$ (16,662)	\$ 32,579	\$ 20,868	\$ 11,711
Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund*	20,354	134,994	(129,091)	26,257	233	26,024
Post Employment Health and Dental Care Claims Health and Hospitalization Fund**	7,129	46,205	(44,137)	9,197	72	9,125
Total	<u>\$ 54,642</u>	<u>\$ 203,281</u>	<u>\$ (189,890)</u>	<u>\$ 68,033</u>	<u>\$ 21,173</u>	<u>\$ 46,860</u>
<i>Prior fiscal year</i>						
State Self-insurance Fund	\$ 24,135	\$ 19,604	\$ (16,580)	\$ 27,159	\$ 24,622	\$ 2,537
Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund*	18,607	162,857	(161,110)	20,354	180	20,174
Post Employment Health and Dental Care Claims Health and Hospitalization Fund**	6,654	161,585	(161,110)	7,129	56	7,073
Total	<u>\$ 49,396</u>	<u>\$ 344,046</u>	<u>\$ (338,800)</u>	<u>\$ 54,642</u>	<u>\$ 24,858</u>	<u>\$ 29,784</u>

* Claim payments reflect all participants (active and post-employment). Claims liability ending balance reflects the active employee participant component.

** Claim payments reflect all participants (active and post-employment). Claims liability ending balance reflects the post-employment participant component.

*** Claims payments and claims liability estimates for the FY06 ending balance have been updated to reflect both State and Non-State participants in the Health and Dental Care Claims Health and Hospitalization Funds. FY06 uses a more conservative reserve method.

B. Contingencies and Commitments

Litigation

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Known claims, asserted and unasserted, have been evaluated for the likelihood of an unfavorable outcome and estimates have been made regarding the amount or range of potential loss in the event of an unfavorable outcome. After review, it is the State's opinion that its ultimate liability in these cases, if any, is not expected to have a material adverse affect on the financial position of the State, except for potential litigation involving the Kansas Department of Social and Rehabilitation Services (SRS) versus the Centers for Medicare and Medicaid Services (CMS). CMS deferred \$42.3 million of child welfare Medicaid claims for the period July 1, 2003 to June 30, 2006. Counsel is optimistic that the State will ultimately be successful in any action against CMS involving this matter.

IV. Other Information

As a result of an Office of Inspector General (OIG) audit finding, the Disability Determination Services disallowed Kansas Department of Social and Rehabilitation Services (SRS) \$4.9 million of indirect costs for fiscal years 1998 through fiscal year 2002 which were allocated through the SRS approved cost allocation plan. The SRS is currently appealing this finding.

The Kansas Department of Revenue has potential liabilities of \$15 million for corporate income tax credits including accrued interest, \$3.8 million of sales tax refunds and \$1 million in tax assessments.

Federal Financial Assistance

The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable Federal regulations. Grants are subject to the Federal Single Audit Act or to financial and compliance audits by grantor agencies. Disallowances by Federal officials as a result of these audits may become liabilities of the State. Other than what has stated above, the State does not expect additional liabilities for disallowed costs from grantor.

C. Post-Employment Benefits

Primary Government

In addition to the pension benefits described in the Employee Retirement Systems and Pension Plans note, the State provides post-employment health care benefits to retirees who elect the Kansas Choice medical option. Retirees electing this option pay less than one hundred percent of the projected costs. The monthly amount of reduced cost (subsidy) ranges from zero dollars to \$98.18 for early retirees, and zero dollars to \$115.13 for Medicare eligible retirees. Early retirees are defined as those retirees not yet Medicare eligible. The participant is required to pay the medical and prescription costs less the subsidy. The employer contribution is the aggregate amount of the subsidies, which is calculated into the employer contribution for active employees.

	Estimated Current Year Expenditures (Subsidies)	Eligible Participants	Enabling Legislation
Kansas Choice Post-Employment Benefits	\$501,609	3,483	K.S.A. 75-6504

The State funds post-employment health care benefits on a pay-as-you-go basis as part of the overall retirement benefit. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations.

IV. Other Information

D. Employee Retirement Systems and Pension Plans

Kansas Public Employees Retirement System - Plan Descriptions

The Kansas Public Employees Retirement System (the System) is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74 Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Firemen's Retirement System (KP&F) and Kansas Retirement System for Judges (Judges). All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer cost-sharing groups. Participation by the State is mandatory, whereas participation by local political subdivisions is an option, but irrevocable once elected. The State Elected Officials Special Members Retirement System is also administered by the System. This system is closed to new members and only a small group is participating.

The System publishes its own financial report, which is available by contacting KPERS at 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603 or telephone 1-888-275-5737.

The System provides retirement, death and disability benefits to State employees, public school employees and employees of counties, municipalities, and certain other State political subdivisions. Although public schools are outside the State reporting entity, the State provides the required employers' contribution for public school employees' retirement benefits.

The System's total covered salaries and wages paid were approximately \$5,354.5 million. The State's total salaries and wages paid were approximately \$1,698.42 million of which approximately \$895.8 million or approximately 53.47 percent relates to employees participating in the System. The remaining approximately 46.53 percent represents salaries and wages paid to employees, such as educational institution employees not participating in the System, employees who have not met the required tenure of employment for participation or those employees who are classified as other than "permanent" and are not eligible for participation. Information on participating employees and retirement system membership at June 30, 2006 unless otherwise noted is as follows:

<u>Participating Employers</u>	<u>Membership</u>
KPERS	1,396
KP&F	77
Judges	1
Total	<u>1,474</u>

IV. Other Information

MEMBERSHIP BY RETIREMENT SYSTEMS

	<u>KPERS</u>	<u>KP&F</u>	<u>Judges</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	59,523	3,654	171	63,348
Terminated employees entitled to benefits but not yet receiving them	9,368	141	14	9,523
Inactive members, deferred disabled	3,099	194	0	3,293
Inactive members not entitled to benefits	27,647	958	5	28,610
Current employees	<u>142,047</u>	<u>6,772</u>	<u>254</u>	<u>149,073</u>
Total	<u><u>241,684</u></u>	<u><u>11,719</u></u>	<u><u>444</u></u>	<u><u>253,847</u></u>

Other Retirement Plans

Faculty and other eligible unclassified employees of the Board of Regents (Regents) or educational institutions under its control must participate in the Regents' retirement plan. Authorized by statute, this defined contribution plan is funded through contributions by the employees and the Regents for the purchase of retirement annuities. Employees must participate in the plan after one year of service or at date of employment if certain waiver provisions are met. The contributions are fully vested with the first contribution.

Employees participating in the Regents' mandatory retirement plan are required to contribute 5.5 percent of their salary toward the purchase of their retirement annuity. During fiscal year 2004, employees contributed approximately \$32.0 million. During fiscal year 2006, the 8.5 percent employer contribution totaled \$49.8 million, representing covered wages of approximately \$561.4 million. These employees may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the voluntary tax-sheltered annuity program, which allows the member to purchase a tax-sheltered annuity contract as a supplement to the basic retirement program. These employees may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the deferred compensation program, which allows the member to defer compensation into the ING 457 program as a supplement to the basic retirement program.

On July 1, 1971, the control of the School for the Blind and the School for the Deaf was transferred from the Regents to the State Board of Education. Employees covered by the Regents' retirement at the time of the transfer could continue to purchase a retirement annuity or convert to KPERS. Employees who elected the annuity plan contribute 5.0 percent of their salary toward an annuity purchase. This is matched by a 5.0 percent employer contribution. During fiscal year 2006, \$3,000 was contributed by employers for employees' annuities representing covered wages of approximately \$61,000.

IV. Other Information

E. Subsequent Events

Bonds and Notes

Short-term Debt

Certificate of Indebtedness – On December 14, 2006 the Pooled Money Investment Board (PMIB) issued a \$200 million Certificate of Indebtedness per K.S.A. 75-3725a, subject to redemption not later than June 30, 2007. See Section III-I, Short-term Obligations, for additional information on issuance of a Certificate of Indebtedness.

Accrued Receivables for Ad Valorem Taxes – In July 2006, receivables were posted to the State Treasurer's receivables in the amount of \$25.6 million for the Kansas Educational Building Fund and \$12.8 million for the State Institutions Building Fund per K.S.A. 76-6b11. See Section III-I, Short-term Obligations, for additional information.

Accrued Receivables for Children's Initiatives Fund – In July 2006, receivables were posted to the State Treasurer's receivables for the Children's Initiatives Fund in the amount of \$23.3 million per Senate Bill No. 480, Section 76(g), Session of 2006. See Section III-I, Short-term Obligations, for additional information.

Accrued Receivables for Economic Development Initiatives Fund – In July 2006, receivables were posted to the State Treasurer's receivables for the Economic Development Initiatives Fund in the amount of \$21.2 million per Senate Bill No. 480, Section 76(h), Session of 2006.

Accrued Receivables for Correctional Institutions' Building Fund – In July 2006, receivables were posted to the State Treasurer's receivables for the Correctional Institutions' Building Fund in the amount of \$4.0 million per Senate Bill No. 480, Section 76 (i), Session of 2006.

Accrued Receivables for Kansas Endowment for Youth Fund – In July 2006, receivables were posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund in the amount of \$202.4 thousand per Senate Bill No. 480, Section 76(j), Session of 2006.

Accrued Receivables for 27th Payroll – In July 2006, receivables were posted to the State Treasurer's receivables for the 27th Payroll in the amount of \$27.6 million per Senate Bill No. 480, Section 76(p), Session of 2006.

Long-term Debt

Revenue Bonds – In October 2006, the KDFA issued Series 2006L for various State projects including continued renovations of the State Capitol and renovations and repairs to the Army National Guard armories. Interest rates on the bonds range from 4.00 to 4.50 percent. The bonds final maturity is on June 30, 2026.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Budgetary information

Annual budgets are adopted on a cash basis with encumbrance modifications for all governmental funds. Appropriations may be re-appropriated if the balance is greater than \$100, or lapsed at fiscal year end.

On or before October 1, agencies are required to submit annual or biennial budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative session immediately following the election of a governor who was elected to the Office of Governor for the first time, that governor must submit the budget report to the legislature on or before the 21st calendar day of that regular session.

The State maintains budgetary restrictions and controls, imposed through annual appropriations and limitations, approved by the Legislature. Agency, fund, and budget unit usually establish the level of budgetary control in the central accounting system. Budgetary control is maintained by mechanisms in the accounting system that prevent expenditures and firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and as reserved fund balances in the governmental financial statements in this report. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the budget unit level. The supplemental budgetary appropriations made in the General Fund were not material. Due to the volume of data, the detailed budget information at the budget unit level is not presented here.

State of Kansas
Required Supplementary Information
June 30, 2006

State of Kansas

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
General Fund**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues and other financing sources:				
Property tax	\$ 22,800	\$ 23,500	\$ 23,986	\$ 486
Income and inheritance tax	2,564,000	2,719,000	2,804,317	85,317
State sales tax	1,715,000	1,725,000	1,736,048	11,048
Consumer's and retailer's compensating use tax	265,000	270,000	269,250	(750)
Tobacco and liquor taxes	192,700	191,400	194,001	2,601
Severance taxes	131,100	131,100	133,432	2,332
Insurance premiums taxes	110,000	111,000	112,207	1,207
Other taxes	49,300	50,800	52,016	1,216
Investment earnings	62,800	60,300	54,335	(5,965)
Transfers	(14,800)	(29,400)	(42,243)	(12,843)
Charges for services, other revenues and financing sources	60,000	56,000	57,018	1,018
Total revenues and other financing sources	<u>5,157,900</u>	<u>5,308,700</u>	<u>5,394,367</u>	<u>85,667</u>
Expenditures and other financing uses:				
Current:				
General government	641,889	635,167	602,761	32,406
Human resources	743,761	744,030	732,135	11,895
Education	3,232,434	3,397,076	3,361,644	35,432
Public safety	367,407	371,053	363,973	7,080
Agriculture and natural resources	18,577	18,553	16,513	2,040
Health and environment	28,749	29,439	29,386	53
Total expenditures and other financing uses	<u>5,032,817</u>	<u>5,195,318</u>	<u>5,106,412</u>	<u>88,906</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>125,083</u>	<u>113,382</u>	<u>287,955</u>	<u>\$ 174,573</u>
Fund balances, beginning of year	481,060	481,060	481,060	
Adjustment for released encumbrances	0	0	1,982	
Fund balances, end of year	<u>\$ 606,143</u>	<u>\$ 594,442</u>	<u>\$ 770,997</u>	

State of Kansas
Required Supplementary Information
June 30, 2006

State of Kansas

**Reconciliation of the Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget to Actual with the Statement of
Revenues, Expenditures, and Changes in Fund Balances- Governmental
Funds for the State General Fund
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)**

	<u>State General Fund</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ 287,955
Current year encumbrances are reported as expenditures for budgetary reporting purposes	27,540
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(20,245)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	263,290
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>(206,021)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 352,519</u></u>

State of Kansas
Required Supplementary Information
June 30, 2006

State of Kansas

**Statement of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
Social and Rehabilitation Services Fund
For the Fiscal Year Ended June 30, 2006
*(expressed in thousands)***

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues and Other Financing Sources:				
Tobacco & liquor taxes	\$ 2,260	\$ 2,260	\$ 2,434	\$ 174
Operating grants	744,324	754,797	465,038	(289,759)
Investment earnings	9	9	470	461
Transfers	(10,549)	(11,109)	400,399	411,508
Charges for services, other revenues & financing sources	94,151	94,151	98,484	4,333
Total revenues and other financing sources	<u>830,195</u>	<u>840,108</u>	<u>966,825</u>	<u>126,717</u>
Expenditures and Other Financing Uses:				
Current:				
Human resources	988,894	996,379	1,000,383	(4,004)
Total expenditures and other financing uses	<u>988,894</u>	<u>996,379</u>	<u>1,000,383</u>	<u>(4,004)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (158,699)</u>	<u>\$ (156,271)</u>	<u>\$ (33,558)</u>	<u>\$ 122,713</u>

State of Kansas
Required Supplementary Information
June 30, 2006

State of Kansas

**Reconciliation of the Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget to Actual
with the Statement of Revenues, Expenditures, and Changes in
Fund Balances- Governmental Funds
Social and Rehabilitation Services Fund
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)**

	Social and Rehabilitation Services Fund
	<hr/>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ (33,558)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	17,665
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(16,374)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	19,591
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<hr/> (13,598)
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<hr/> \$ (26,274) <hr/>

State of Kansas
Required Supplementary Information
June 30, 2006

Kansas Department of Transportation
Statement of Revenues, Expenditures and Other Financing Sources (Uses)
State Highway Fund (Agency's general fund)
Budget and Actual -- Budgetary Basis
For the Year Ended June 30, 2006
(expressed in thousands)

	Budgeted Amounts		Actual & Encum- brances	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Motor fuel taxes	\$ 301,024	\$ 286,489	\$ 281,750	\$ (4,739)
Vehicle registrations and permits	161,964	164,700	165,720	1,020
Intergovernmental	339,745	248,820	413,012	164,192
Sales and use taxes	97,492	96,495	99,069	2,574
Investment earnings	8,757	17,554	23,374	5,820
Other	7,639	8,216	6,105	(2,111)
Transfers from other state funds	2,573	153,708	215,668	61,960
Total revenues	<u>919,194</u>	<u>975,982</u>	<u>1,204,698</u>	<u>228,716</u>
Expenditures, with legal limits:				
Current operating:				
Maintenance	129,524	131,472	128,510	2,962
Construction	64,442	63,055	57,527	5,528
Local support	4,107	5,333	7,274	(1,941)
Management	52,043	53,758	50,821	2,937
Capital improvements	6,914	7,774	4,588	3,186
Transfers to other state funds	88,819	88,819	90,653	(1,834)
Expenditures with legal limits	<u>345,849</u>	<u>350,211</u>	<u>339,373</u>	<u>10,838</u>
Expenditures, without legal limits:				
Current operating:				
Maintenance	177,238	180,929	179,725	1,204
Local support	8,793	10,860	12,101	(1,241)
Management	575	750	1,273	(523)
Capital improvements	606,752	738,240	627,320	110,920
Transfers to other state funds	4,479	4,479	4,844	(365)
Expenditures without legal limits	<u>797,837</u>	<u>935,258</u>	<u>825,263</u>	<u>109,995</u>
Total expenditures	<u>1,143,686</u>	<u>1,285,469</u>	<u>1,164,636</u>	<u>120,833</u>
Excess (deficiency) of revenues over expenditures	<u>(224,492)</u>	<u>(309,487)</u>	<u>40,062</u>	<u>349,549</u>
Other financing sources (uses):				
Transfers-in	0	0	0	0
Transfers-out	(139,824)	(139,824)	(134,419)	5,405
Total other financing sources (uses)	<u>(139,824)</u>	<u>(139,824)</u>	<u>(134,419)</u>	<u>5,405</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (364,316)</u>	<u>\$ (449,311)</u>	<u>\$ (94,357)</u>	<u>\$ 354,954</u>

State of Kansas
Required Supplementary Information
June 30, 2006

Kansas Department of Transportation
Reconciliation of
Statement of Revenues, Expenditures and Other Financing Sources (Uses)
State Highway Fund (Agency's general fund)
Budget and Actual -- Budgetary Basis
to
Statement of Revenues, Expenditures, and Changes in Fund Balances
State Highway Fund (Agency's general fund)
For the Year Ended June 30, 2006
(expressed in thousands)

Excess (deficiency) of revenues and other sources over expenditures and other uses - budgetary basis	\$ (94,357)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	(18,946)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	590,431
Expenditures on prior year encumbrances are not reported for budgetary reporting	(539,677)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	<u>7,022</u>
Net Change in Fund Balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u><u>\$ (55,527)</u></u>

State of Kansas
Required Supplementary Information
June 30, 2006

State of Kansas

**Statement of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual**

Health Policy Authority

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues and Other Financing Sources:				
Operating grants	\$ 1,405,925	\$ 761,791	\$ 1,435,259	\$ 673,468
Investment earnings	0	0	348	348
Transfers	2,600	2,600	(670,951)	(673,551)
Charges for services, other revenues & financing sources	191,493	198,361	149,893	(48,468)
Total revenues and other financing sources	<u>1,600,018</u>	<u>962,751</u>	<u>914,549</u>	<u>(48,202)</u>
Expenditures and Other Financing Uses:				
Current:				
Human resources	912,699	912,699	909,479	3,219
Total expenditures and other financing uses	<u>912,699</u>	<u>912,699</u>	<u>909,479</u>	<u>3,219</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 687,320</u>	<u>\$ 50,053</u>	<u>\$ 5,070</u>	<u>\$ (44,983)</u>

State of Kansas
Required Supplementary Information
June 30, 2006

State of Kansas

**Reconciliation of the Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget to Actual
with the Statement of Revenues, Expenditures, and Changes in
Fund Balances- Governmental Funds
Health Policy Authority
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)**

	<u>Health Policy Authority</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ 5,070
Current year encumbrances are reported as expenditures for budgetary reporting purposes	7,798
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(14,697)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>10,898</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 9,069</u></u>

**Support of Modified Approach for
Kansas Department of Transportation Infrastructure Reporting**

Roadways

The highways in the State are made up of two systems: interstate highways and non-interstate highways. The condition of these systems is assessed annually using a pavement management system that measures the condition of the pavement surface to classify the roads into the following three performance levels:

PL-1 Roadway surface is in good condition and needs only routine or light preventative maintenance.

PL-2 Roadway surface needs at least routine maintenance.

PL-3 Roadway surface is in poor condition and needs significant work.

While the Department has goals to maintain these systems at higher levels, minimum acceptable condition levels have been defined as having at least 80 percent of the interstate miles in PL-1 and at least 75 percent of the non-interstate miles in PL-1. The following table compares the minimum acceptable condition level with the actual condition for the current and prior year.

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level*	Actual Condition Level*	Minimum Acceptable Condition Level*	Actual Condition Level*
2004	80%	95%	75%	89%
2005	80%	97%	75%	88%
2006	80%	94%	75%	86%

*Percent of miles in PL-1

The Department's goal is to continually improve the condition of the State highway system. To achieve this goal it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. To maintain the interstate highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$110 million annually. To maintain the non-interstate highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$260 million. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior year (expressed in thousands).

Fiscal Year	Interstate Highways		Non-interstate Highways	
	Minimum Acceptable Condition Level	Actual Expenses	Minimum Acceptable Condition Level	Actual Expenses
2002	\$ 110,000	\$ 149,554	\$ 260,000	\$ 289,685
2003	110,000	126,711	260,000	311,308
2004	110,000	155,711	260,000	348,849
2005	110,000	144,603	260,000	348,629
2006	110,000	115,820	260,000	380,988

Bridges

The condition of the bridge system in the state is assessed annually using the Pontis Bridge Management System. This system evaluates the condition of several elements (decks, girders, floor beams, columns etc) within each

State of Kansas
Required Supplementary Information
June 30, 2006

bridge using a rating scale of 1 to 5. These element ratings are weighted and aggregated to establish a health index of 0 to 100 for each bridge which, in turn, are aggregated to establish a health index for the entire system.

The goal of the Department is to maintain the bridge system at a higher level, but has defined an overall statewide health index of 80 as the minimum acceptable condition level. This table compares the minimum acceptable health index with the actual health index for the current and prior year.

<u>Fiscal Year</u>	<u>Minimum Acceptable Health Index</u>	<u>Actual Health Index</u>
2004	80	92
2005	80	93
2006	80	93

The Department's goal is to continually improve the condition of the State's bridge system. To achieve this goal it is necessary to perform maintenance activities and to replace those bridges that can no longer be economically maintained. To maintain the State's bridges at or above the stated minimum acceptable health index it is estimated that annual preservation and replacement expenditures must be approximately \$75 million annually. The following table compares the estimated annual expenditures need to maintain the bridges system with the actual expenditures for the current and prior year (expressed in thousands).

<u>Fiscal Year</u>	<u>Minimum Acceptable Health Index</u>	<u>Actual Expenses</u>
2002	\$ 75,000	\$ 112,012
2003	75,000	112,012
2004	75,000	112,012
2005	75,000	112,012
2006	75,000	112,012

**OTHER
SUPPLEMENTARY
INFORMATION**

Listing of Non-Major Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes:

State Regulatory Boards and Commissions
Correctional Facilities
Tobacco Settlement for Children's Initiatives
Adjutant General
Aging
Agriculture
Attorney General
Administration
Health and Environment
Highway Patrol
Historical Society
Labor
Commerce
Insurance
Judicial
State Library
Revenue
Education
Secretary of State
State Treasurer
Wildlife and Parks
Executive
Legislative
Transportation- special revenue
State Water Plan

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds:

State Buildings (Appropriated)
Capitol Complex Buildings
Master Lease Program
Corrections
State Library
Pooled Funds
School District
Armories
KBI Buildings
Public Broadcasting Digital
Vital Statistics Project
Highway Patrol
Labor
Social and Rehabilitation Services

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principle and interest:

Bond and Interest

Highway Debt Service

STAR bond liability fund for GAAP purposes

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds
June 30, 2006
(expressed in thousands)

	Special Revenue Funds				
	State Regulatory Boards and Commissions	Correctional Facilities	Tobacco Settlement for Children's Initiative	Adjutant General	Aging
ASSETS					
Cash and cash equivalents	\$ 47,047	\$ 8,706	\$ 11,226	\$ 6,853	\$ 5,982
Investments	1,198	0	0	0	0
Receivables, net	15	1	0	0	23,347
Due from other funds	0	0	0	0	0
Advances to other funds	41	5	0	0	0
Restricted cash and cash equivalents	279	78	0	0	0
Total assets	\$ 48,580	\$ 8,790	\$ 11,226	\$ 6,853	\$ 29,329
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other liabilities	\$ 5,090	\$ 2,495	\$ 1,825	\$ 5,037	\$ 24,544
Due to other funds	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Advances from other funds	0	0	0	0	0
Total liabilities	5,090	2,495	1,825	5,037	24,544
Fund balances:					
Reserved for debt service	279	78	0	0	0
Reserved for encumbrances	4,169	977	5,484	2,584	777
Reserved for advances to other funds	41	5	0	0	0
Unreserved	39,001	5,235	3,917	(768)	4,008
Total fund balance	43,490	6,295	9,401	1,816	4,785
Total liabilities and fund balance	\$ 48,580	\$ 8,790	\$ 11,226	\$ 6,853	\$ 29,329

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2006
(expressed in thousands)

	Special Revenue Funds				
	Agriculture	Attorney General	Administration	Health and Environment	Highway Patrol
ASSETS					
Cash and cash equivalents	\$ 5,184	\$ 8,408	\$ 18,246	\$ 47,207	\$ 10,432
Investments	0	0	10,852	0	0
Receivables, net	0	0	38	264	0
Due from other funds	0	0	0	0	0
Advances to other funds	4	2	3	11,022	14
Restricted cash and cash equivalents	0	0	52	0	0
Total assets	\$ 5,188	\$ 8,410	\$ 29,191	\$ 58,493	\$ 10,446
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other liabilities	\$ 739	\$ 1,602	\$ 1,169	\$ 12,615	\$ 3,260
Due to other funds	0	0	0	47	533
Deferred revenue	0	0	0	67	0
Advances from other funds	0	0	0	189	2,132
Total liabilities	739	1,602	1,169	12,918	5,925
Fund balances:					
Reserved for debt service	0	0	52	0	0
Reserved for encumbrances	766	1,423	6,378	27,021	(398)
Reserved for advances to other funds	4	2	3	11,022	14
Unreserved	3,679	5,383	21,589	7,532	4,905
Total fund balance	4,449	6,808	28,022	45,575	4,521
Total liabilities and fund balance	\$ 5,188	\$ 8,410	\$ 29,191	\$ 58,493	\$ 10,446

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2006
(expressed in thousands)

	Special Revenue Funds				
	Historical Society	Labor	Commerce	Insurance	Judicial
ASSETS					
Cash and cash equivalents	\$ 3,904	\$ 4,646	\$ 45,288	\$ 17,540	\$ 9,705
Investments	0	0	25,999	0	0
Receivables, net	0	0	15,138	0	0
Due from other funds	0	0	0	0	0
Advances to other funds	0	10	9	8	10
Restricted cash and cash equivalents	0	0	58	0	0
Total assets	\$ 3,904	\$ 4,656	\$ 86,492	\$ 17,548	\$ 9,715
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other liabilities	\$ 279	\$ 1,659	\$ 3,969	\$ 8,907	\$ 562
Due to other funds	0	0	0	67	0
Deferred revenue	0	0	0	0	0
Advances from other funds	0	0	0	747	0
Total liabilities	279	1,659	3,969	9,721	562
Fund balances:					
Reserved for debt service	0	0	1	0	0
Reserved for encumbrances	402	722	16,664	491	127
Reserved for advances to other funds	0	10	9	8	10
Unreserved	3,223	2,265	65,849	7,328	9,016
Total fund balance	3,625	2,997	82,523	7,827	9,153
Total liabilities and fund balance	\$ 3,904	\$ 4,656	\$ 86,492	\$ 17,548	\$ 9,715

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2006
(expressed in thousands)

	Special Revenue Funds				
	State Library	Revenue	Education	Secretary of State	State Treasurer
ASSETS					
Cash and cash equivalents	\$ 156	\$ 11,145	\$ 6,771	\$ 27,981	\$ 2,651
Investments	0	0	0	0	0
Receivables, net	0	10	0	0	0
Due from other funds	0	0	0	0	10,000
Advances to other funds	0	25	1	1	46,327
Restricted cash and cash equivalents	0	0	0	0	0
Total assets	\$ 156	\$ 11,180	\$ 6,772	\$ 27,982	\$ 58,978
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other liabilities	\$ 158	\$ 3,423	\$ 1,430	\$ 1,259	\$ 56,775
Due to other funds	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Advances from other funds	0	0	0	0	0
Total liabilities	158	3,423	1,430	1,259	56,775
Fund balances:					
Reserved for debt service	0	0	0	0	0
Reserved for encumbrances	0	2,624	3,465	14,451	(45)
Reserved for advances to other funds	0	25	1	1	46,324
Unreserved	(2)	5,108	1,876	12,271	(44,076)
Total fund balance	(2)	7,757	5,342	26,723	2,203
Total liabilities and fund balance	\$ 156	\$ 11,180	\$ 6,772	\$ 27,982	\$ 58,978

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2006
(expressed in thousands)

	Special Revenue Funds				
	Wildlife and Parks	Executive	Legislative	Transportation- special revenue	State Water Plan
ASSETS					
Cash and cash equivalents	\$ 28,260	\$ 1,746	\$ 144	\$ 17,803	\$ 17,026
Investments	0	0	0	0	0
Receivables, net	0	0	0	6,442	3,543
Due from other funds	0	0	0	0	0
Advances to other funds	19	0	0	0	1
Restricted cash and cash equivalents	0	0	0	0	0
Total assets	\$ 28,279	\$ 1,746	\$ 144	\$ 24,245	\$ 20,570
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other liabilities	\$ 4,903	\$ 431	\$ 3	\$ 1,397	\$ 1,750
Due to other funds	5	0	0	0	0
Deferred revenue	0	0	0	0	1,809
Advances from other funds	0	0	0	0	0
Total liabilities	4,908	431	3	1,397	3,559
Fund balances:					
Reserved for debt service	0	0	0	0	0
Reserved for encumbrances	2,771	0	0	12,806	5,738
Reserved for advances to other funds	19	0	0	5,476	1
Unreserved	20,581	1,315	141	4,566	11,272
Total fund balance	23,371	1,315	141	22,848	17,011
Total liabilities and fund balance	\$ 28,279	\$ 1,746	\$ 144	\$ 24,245	\$ 20,570

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2006
(expressed in thousands)

Capital Projects Funds					
	State Buildings (Appropriated)	Capitol Complex Buildings	Master Lease Program	Corrections	State Library
ASSETS					
Cash and cash equivalents	\$ 27,231	\$ 15	\$ 5,857	\$ (7)	\$ 678
Investments	0	19,831	0	1,981	0
Receivables, net	0	256	50,052	49	0
Due from other funds	0	0	4,287	0	0
Advances to other funds	0	0	23,027	0	0
Restricted cash and cash equivalents	0	2,291	0	661	0
Total assets	\$ 27,231	\$ 22,393	\$ 83,223	\$ 2,684	\$ 678
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other liabilities	\$ 3,100	\$ 2,261	\$ 1,347	\$ (1)	\$ 1
Due to other funds	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Advances from other funds	0	0	0	0	0
Total liabilities	3,100	2,261	1,347	(1)	1
Fund balances:					
Reserved for debt service	0	2,271	0	646	0
Reserved for encumbrances	1,885	29,343	2,357	51	0
Reserved for advances to other funds	0	0	23,027	0	0
Unreserved	22,246	(11,482)	56,492	1,988	677
Total fund balance	24,131	20,132	81,876	2,685	677
Total liabilities and fund balance	\$ 27,231	\$ 22,393	\$ 83,223	\$ 2,684	\$ 678

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds - Continued
June 30, 2006
(expressed in thousands)

	Capital Projects Funds				
	Armories	Public Broadcasting Digital	Vital Statistics Project	Labor	Social and Rehabilitation Services
ASSETS					
Cash and cash equivalents	\$ 0	\$ 2	\$ 0	\$ 1,376	\$ 0
Investments	1,560	0	0	16,818	3,850
Receivables, net	13	0	0	203	44
Due from other funds	0	0	0	0	0
Advances to other funds	0	0	0	0	0
Restricted cash and cash equivalents	2,535	2,393	760	456	3,995
Total assets	\$ 4,108	\$ 2,395	\$ 760	\$ 18,853	\$ 7,889
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other liabilities	\$ 423	\$ 608	\$ 4	\$ 988	\$ 1,271
Due to other funds	0	0	0	0	0
Deferred revenue	0	0	0	0	0
Advances from other funds	0	0	0	0	0
Total liabilities	423	608	4	988	1,271
Fund balances:					
Reserved for debt service	2,535	2,393	760	456	3,995
Reserved for encumbrances	819	0	163	1,608	3,565
Reserved for advances to other funds	0	0	0	0	0
Unreserved	331	(606)	(167)	15,801	(942)
Total fund balance	3,685	1,787	756	17,865	6,618
Total liabilities and fund balance	\$ 4,108	\$ 2,395	\$ 760	\$ 18,853	\$ 7,889

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Balance Sheet - Governmental Funds - Concluded
June 30, 2006
(expressed in thousands)

	Debt Service Funds			
	Bond and Interest	Highway Debt Service	STAR Bonds Debt Service	Total Nonmajor Governmental
ASSETS				
Cash and cash equivalents	\$ 1	\$ 0	\$ 11	\$ 399,221
Investments	389	5,580	0	88,058
Receivables, net	6	5,538	0	104,959
Due from other funds	0	0	0	14,287
Advances to other funds	0	0	0	80,529
Restricted cash and cash equivalents	9	67,583	49,961	131,111
Total assets	\$ 405	\$ 78,701	\$ 49,972	\$ 818,165
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 0	\$ 41	\$ 0	\$ 155,324
Due to other funds	0	0	0	652
Deferred revenue	0	5,296	0	7,172
Advances from other funds	0	0	0	3,068
Total liabilities	0	5,337	0	166,216
Fund balances:				
Reserved for debt service	9	14	0	13,489
Reserved for encumbrances	0	381	0	149,569
Reserved for advances to other funds	0	0	0	86,002
Unreserved	396	72,969	49,972	402,889
Total fund balance	405	73,364	49,972	651,949
Total liabilities and fund balance	\$ 405	\$ 78,701	\$ 49,972	\$ 818,165

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Special Revenue Funds				
	State Regulatory Boards and Commission	Correctional Facilities	Tobacco Settlement for Children's Initiative	Adjutant General	Aging
Revenues:					
Property tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0
Sales and excise tax	2	0	0	0	0
Gross receipts tax	7,564	0	0	0	0
Charges for services	65,051	14,183	48,775	2	1,947
Operating grants	3,301	4,050	0	72,966	17,145
Capital grants	44	0	0	0	0
Investment earnings	287	45	688	1	0
Other revenues	6,076	3,108	8	1,469	72
Total revenues	<u>82,325</u>	<u>21,386</u>	<u>49,471</u>	<u>74,438</u>	<u>19,164</u>
Expenditures:					
Current:					
General government	44,552	0	0	0	0
Human resources	9,135	0	32,551	0	261,490
Education	547	0	5,118	0	0
Public safety	5,201	38,472	8,999	72,643	0
Agriculture and natural resources	11,308	0	0	0	0
Highways and other transportation	0	0	0	0	0
Health and environment	0	0	2,324	0	0
Economic development	0	0	0	0	0
Debt service:					
Principal	1,526	460	0	0	0
Interest	2,058	144	0	0	0
Total expenditures	<u>74,327</u>	<u>39,076</u>	<u>48,992</u>	<u>72,643</u>	<u>261,490</u>
Excess of revenues over (under) expenditures	<u>7,998</u>	<u>(17,690)</u>	<u>479</u>	<u>1,795</u>	<u>(242,326)</u>
Other financing sources (uses):					
Proceeds from sale of debt	0	0	0	0	0
Transfers, net	(9,026)	17,924	(265)	1,087	243,191
Other financing sources (uses)	0	0	0	0	0
Total other financing sources (uses)	<u>(9,026)</u>	<u>17,924</u>	<u>(265)</u>	<u>1,087</u>	<u>243,191</u>
Net change in fund balances	(1,028)	234	214	2,882	865
Fund balances, beginning of year	44,518	6,088	9,187	(1,066)	3,920
Revisions to beginning fund balances	0	(27)	0	0	0
Fund balances, beginning of year (restated)	<u>44,518</u>	<u>6,061</u>	<u>9,187</u>	<u>(1,066)</u>	<u>3,920</u>
Fund balances, end of year	<u>\$ 43,490</u>	<u>\$ 6,295</u>	<u>\$ 9,401</u>	<u>\$ 1,816</u>	<u>\$ 4,785</u>

State of Kansas
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June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Special Revenue Funds				
	Agriculture	Attorney General	Administration	Health and Environment	Highway Patrol
Revenues:					
Property tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0
Sales and excise tax	0	0	0	708	2,621
Gross receipts tax	0	0	0	1,059	0
Charges for services	7,202	10,670	9,264	24,942	8,900
Operating grants	3,853	6,167	505	101,334	43,410
Capital grants	0	0	0	0	0
Investment earnings	53	35	213	946	209
Other revenues	482	691	27,060	36,792	243
Total revenues	<u>11,590</u>	<u>17,563</u>	<u>37,042</u>	<u>165,781</u>	<u>55,383</u>
Expenditures:					
Current:					
General government	0	9,989	29,749	0	0
Human resources	0	0	0	0	0
Education	0	0	0	0	0
Public safety	0	11,234	0	0	68,411
Agriculture and natural resources	11,214	0	0	0	0
Highways and other transportation	0	0	0	0	0
Health and environment	0	0	0	162,405	0
Economic development	0	0	0	0	0
Debt service:					
Principal	0	0	225	0	0
Interest	0	0	26,286	0	(2)
Total expenditures	<u>11,214</u>	<u>21,223</u>	<u>56,260</u>	<u>162,405</u>	<u>68,409</u>
Excess of revenues over (under) expenditures	<u>376</u>	<u>(3,660)</u>	<u>(19,218)</u>	<u>3,376</u>	<u>(13,026)</u>
Other financing sources (uses):					
Proceeds from sale of debt	0	0	0	0	0
Transfers, net	187	4,396	10,741	(309)	5,461
Other financing sources (uses)	0	0	0	0	0
Total other financing sources (uses)	<u>187</u>	<u>4,396</u>	<u>10,741</u>	<u>(309)</u>	<u>5,461</u>
Net change in fund balances	563	736	(8,477)	3,067	(7,565)
Fund balances, beginning of year	3,886	6,072	36,499	42,508	12,086
Revisions to beginning fund balances	0	0	0	0	0
Fund balances, beginning of year (restated)	<u>3,886</u>	<u>6,072</u>	<u>36,499</u>	<u>42,508</u>	<u>12,086</u>
Fund balances, end of year	<u>\$ 4,449</u>	<u>\$ 6,808</u>	<u>\$ 28,022</u>	<u>\$ 45,575</u>	<u>\$ 4,521</u>

State of Kansas
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June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Special Revenue Funds				
	Historical Society	Labor	Commerce	Insurance	Judicial
Revenues:					
Property tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	13,232	0	0
Sales and excise tax	1,204	0	0	0	0
Gross receipts tax	0	0	0	10,143	0
Charges for services	886	1,228	4,923	9,191	13,490
Operating grants	767	19,533	53,408	153	177
Capital grants	0	0	0	0	0
Investment earnings	113	6	1,219	0	75
Other revenues	135	11,819	3,860	272	1,995
Total revenues	<u>3,105</u>	<u>32,586</u>	<u>76,642</u>	<u>19,759</u>	<u>15,737</u>
Expenditures:					
Current:					
General government	0	0	104,329	17,695	13,586
Human resources	0	33,160	0	0	0
Education	2,973	0	(549)	0	0
Public safety	0	0	0	0	0
Agriculture and natural resources	0	0	0	0	0
Highways and other transportation	0	0	0	0	0
Health and environment	0	0	0	0	0
Economic development	0	0	3,780	0	0
Debt service:					
Principal	0	0	12,305	0	0
Interest	0	26	2,457	0	0
Total expenditures	<u>2,973</u>	<u>33,186</u>	<u>122,322</u>	<u>17,695</u>	<u>13,586</u>
Excess of revenues over (under) expenditures	<u>132</u>	<u>(600)</u>	<u>(45,680)</u>	<u>2,064</u>	<u>2,151</u>
Other financing sources (uses):					
Proceeds from sale of debt	0	0	28,233	0	0
Transfers, net	(39)	1,016	34,230	(656)	24
Other financing sources (uses)	0	0	0	0	0
Total other financing sources (uses)	<u>(39)</u>	<u>1,016</u>	<u>62,463</u>	<u>(656)</u>	<u>24</u>
Net change in fund balances	93	416	16,783	1,408	2,175
Fund balances, beginning of year	3,532	2,581	65,794	6,419	6,978
Revisions to beginning fund balances	0	0	(54)	0	0
Fund balances, beginning of year (restated)	<u>3,532</u>	<u>2,581</u>	<u>65,740</u>	<u>6,419</u>	<u>6,978</u>
Fund balances, end of year	<u>\$ 3,625</u>	<u>\$ 2,997</u>	<u>\$ 82,523</u>	<u>\$ 7,827</u>	<u>\$ 9,153</u>

State of Kansas
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June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Special Revenue Funds				
	State Library	Revenue	Education	Secretary of State	State Treasurer
Revenues:					
Property tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0
Sales and excise tax	0	6,291	0	0	0
Gross receipts tax	0	191	0	0	0
Charges for services	17	13,873	4,521	4,595	2,500
Operating grants	1,445	0	380,812	2	0
Capital grants	0	0	0	0	0
Investment earnings	0	0	11	989	2,790
Other revenues	1	0	32,782	(1)	10,825
Total revenues	<u>1,463</u>	<u>20,355</u>	<u>418,126</u>	<u>5,585</u>	<u>16,115</u>
Expenditures:					
Current:					
General government	0	58,888	0	8,392	15,021
Human resources	0	0	0	0	0
Education	1,537	0	482,011	0	0
Public safety	0	0	0	0	0
Agriculture and natural resources	0	0	0	0	0
Highways and other transportation	0	0	0	0	0
Health and environment	0	0	0	0	0
Economic development	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Total expenditures	<u>1,537</u>	<u>58,888</u>	<u>482,011</u>	<u>8,392</u>	<u>15,021</u>
Excess of revenues over (under) expenditures	<u>(74)</u>	<u>(38,533)</u>	<u>(63,885)</u>	<u>(2,807)</u>	<u>1,094</u>
Other financing sources (uses):					
Proceeds from sale of debt	0	0	0	0	0
Transfers, net	0	36,700	53,113	92	(1,138)
Other financing sources (uses)	0	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>36,700</u>	<u>53,113</u>	<u>92</u>	<u>(1,138)</u>
Net change in fund balances	(74)	(1,833)	(10,772)	(2,715)	(44)
Fund balances, beginning of year	72	9,590	16,114	29,438	1,997
Revisions to beginning fund balances	0	0	0	0	250
Fund balances, beginning of year (restated)	<u>72</u>	<u>9,590</u>	<u>16,114</u>	<u>29,438</u>	<u>2,247</u>
Fund balances, end of year	<u>\$ (2)</u>	<u>\$ 7,757</u>	<u>\$ 5,342</u>	<u>\$ 26,723</u>	<u>\$ 2,203</u>

State of Kansas
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June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Special Revenue Funds					
	Wildlife and Parks	Executive	Legislative	Transportation- special revenue	State Water Plan	Transporta- tion Revolving Fund
Revenues:						
Property tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0	0
Sales and excise tax	992	0	0	0	0	0
Gross receipts tax	0	0	0	0	0	0
Charges for services	28,087	169	56	280	4,162	0
Operating grants	12,718	15,573	81	0	0	0
Capital grants	0	0	0	5,378	0	0
Investment earnings	566	73	0	0	0	0
Other revenues	972	29	30	1,123	5,031	0
Total revenues	43,335	15,844	167	6,781	9,193	0
Expenditures:						
Current:						
General government	0	12,719	172	0	0	0
Human resources	0	0	0	0	0	0
Education	0	0	0	0	(3)	0
Public safety	0	0	0	0	0	0
Agriculture and natural resources	45,676	0	0	0	11,919	0
Highways and other transportation	0	0	0	13,137	0	0
Health and environment	0	0	0	0	4,185	0
Economic development	0	0	0	0	0	0
Debt service:						
Principal	500	0	0	0	230	0
Interest	15	0	0	0	4	0
Total expenditures	46,191	12,719	172	13,137	16,335	0
Excess of revenues over (under) expenditures	(2,856)	3,125	(5)	(6,356)	(7,142)	0
Other financing sources (uses):						
Proceeds from sale of debt	0	0	0	0	0	0
Transfers, net	2,047	(2,062)	(1)	12,000	7,782	0
Other financing sources (uses)	0	0	0	0	0	0
Total other financing sources (uses)	2,047	(2,062)	(1)	12,000	7,782	0
Net change in fund balances	(809)	1,063	(6)	5,644	640	0
Fund balances, beginning of year	24,180	252	147	17,204	16,371	25,607
Revisions to beginning fund balances	0	0	0	0	0	(25,607)
Fund balances, beginning of year (restated)	24,180	252	147	17,204	16,371	0
Fund balances, end of year	\$ 23,371	\$ 1,315	\$ 141	\$ 22,848	\$ 17,011	\$ 0

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June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Capital Projects Funds					
	State Buildings (Appropriated)	Capitol Complex Buildings	Master Lease Program	Corrections	State Library	Pooled Funds
Revenues:						
Property tax	\$ 43,164	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0	0
Sales and excise tax	0	0	0	0	0	0
Gross receipts tax	0	0	0	0	0	0
Charges for services	0	873	0	126	0	0
Operating grants	0	0	0	0	341	0
Capital grants	0	0	0	0	0	0
Investment earnings	0	147	310	24	0	0
Other revenues	15	(1)	(1)	0	0	0
Total revenues	<u>43,179</u>	<u>1,019</u>	<u>309</u>	<u>150</u>	<u>341</u>	<u>0</u>
Expenditures:						
Current:						
General government	387	23,513	3,497	0	0	0
Human resources	5,388	0	0	0	0	0
Education	1,740	0	0	0	54	0
Public safety	3,918	0	0	0	0	0
Agriculture and natural resources	0	0	0	0	0	0
Highways and other transportation	0	0	0	0	0	0
Health and environment	0	0	0	0	0	0
Economic development	0	0	0	0	0	0
Debt service:						
Principal	0	4,250	8,182	6,595	0	105
Interest	0	5,524	2,911	3,723	0	21
Total expenditures	<u>11,433</u>	<u>33,287</u>	<u>14,590</u>	<u>10,318</u>	<u>54</u>	<u>126</u>
Excess of revenues over (under) expenditures	<u>31,746</u>	<u>(32,268)</u>	<u>(14,281)</u>	<u>(10,168)</u>	<u>287</u>	<u>(126)</u>
Other financing sources (uses):						
Proceeds from sale of debt	0	35,500	3,413	0	0	0
Transfers, net	(34,099)	8,375	0	9,953	0	126
Other financing sources (uses)	0	(7,567)	0	0	0	0
Total other financing sources (uses)	<u>(34,099)</u>	<u>36,308</u>	<u>3,413</u>	<u>9,953</u>	<u>0</u>	<u>126</u>
Net change in fund balances	<u>(2,353)</u>	<u>4,040</u>	<u>(10,868)</u>	<u>(215)</u>	<u>287</u>	<u>0</u>
Fund balances, beginning of year	26,484	16,092	92,744	2,780	390	0
Revisions to beginning fund balances	0	0	0	120	0	0
Fund balances, beginning of year (restated)	<u>26,484</u>	<u>16,092</u>	<u>92,744</u>	<u>2,900</u>	<u>390</u>	<u>0</u>
Fund balances, end of year	<u>\$ 24,131</u>	<u>\$ 20,132</u>	<u>\$ 81,876</u>	<u>\$ 2,685</u>	<u>\$ 677</u>	<u>\$ 0</u>

State of Kansas
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June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Capital Projects Funds					
	Armories	Public Broadcasting Digital	Vital Statistics Project	Highway Patrol	Labor	Social and Rehabilitation Services
Revenues:						
Property tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0	0
Sales and excise tax	0	0	0	0	0	0
Gross receipts tax	0	0	0	0	0	0
Charges for services	83	0	0	0	508	282
Operating grants	0	0	0	0	0	0
Capital grants	0	0	0	0	0	0
Investment earnings	220	105	54	0	103	154
Other revenues	0	0	(1)	1	0	3
Total revenues	303	105	53	1	611	439
Expenditures:						
Current:						
General government	0	1,471	0	0	0	0
Human resources	0	0	0	0	4,013	13,828
Education	0	0	0	0	0	0
Public safety	9,387	0	0	0	0	0
Agriculture and natural resources	0	0	0	0	0	0
Highways and other transportation	0	0	0	0	0	0
Health and environment	0	0	887	0	0	0
Economic development	0	0	0	0	0	0
Debt service:						
Principal	890	225	415	650	145	2,810
Interest	739	291	82	235	608	3,693
Total expenditures	11,016	1,987	1,384	885	4,766	20,331
Excess of revenues over (under) expenditures	(10,713)	(1,882)	(1,331)	(884)	(4,155)	(19,892)
Other financing sources (uses):						
Proceeds from sale of debt	21,411	3,450	0	0	21,576	0
Transfers, net	1,306	432	443	884	256	5,923
Other financing sources (uses)	(21,167)	(1,727)	0	0	(3,082)	0
Total other financing sources (uses)	1,550	2,155	443	884	18,750	5,923
Net change in fund balances	(9,163)	273	(888)	0	14,595	(13,969)
Fund balances, beginning of year	12,848	1,514	1,644	0	3,270	20,587
Revisions to beginning fund balances	0	0	0	0	0	0
Fund balances, beginning of year (restated)	12,848	1,514	1,644	0	3,270	20,587
Fund balances, end of year	\$ 3,685	\$ 1,787	\$ 756	\$ 0	\$ 17,865	\$ 6,618

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**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Concluded**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Debt Service Funds			
	Bond and Interest	Highway Debt Service	STAR Bonds Debt Service	Total Nonmajor Governmental
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 43,164
Income and inheritance tax	0	0	0	13,232
Sales and excise tax	0	0	22,532	34,350
Gross receipts tax	0	0	0	18,957
Charges for services	9	1,666	0	282,461
Operating grants	0	0	0	737,741
Capital grants	0	0	0	5,422
Investment earnings	10	3	0	9,449
Other revenues	1,258	6,500	(1)	152,647
Total revenues	<u>1,277</u>	<u>8,169</u>	<u>22,531</u>	<u>1,297,423</u>
Expenditures:				
Current:				
General government	0	1,694	45,924	391,578
Human resources	0	0	0	359,565
Education	0	0	0	493,428
Public safety	127	0	0	218,392
Agriculture and natural resources	0	0	0	80,117
Highways and other transportation	0	0	0	13,137
Health and environment	0	0	0	169,801
Economic development	0	0	0	3,780
Debt service:				
Principal	4,825	46,755	2,477	93,570
Interest	1,390	76,126	15,985	142,316
Total expenditures	<u>6,342</u>	<u>124,575</u>	<u>64,386</u>	<u>1,965,684</u>
Excess of revenues over (under) expenditures	<u>(5,065)</u>	<u>(116,406)</u>	<u>(41,855)</u>	<u>(668,261)</u>
Other financing sources (uses):				
Proceeds from sale of debt	10,920	217,223	190,696	532,422
Transfers, net	4,742	(88,599)	0	326,237
Other financing sources (uses)	(10,793)	0	(133,066)	(177,402)
Total other financing sources (uses)	<u>4,869</u>	<u>128,624</u>	<u>57,630</u>	<u>681,257</u>
Net change in fund balances	(196)	12,218	15,775	12,996
Fund balances, beginning of year	601	61,146	34,186	664,260
Revisions to beginning fund balances	0	0	11	(25,307)
Fund balances, beginning of year (restated)	<u>601</u>	<u>61,146</u>	<u>34,197</u>	<u>638,953</u>
Fund balances, end of year	<u>\$ 405</u>	<u>\$ 73,364</u>	<u>\$ 49,972</u>	<u>\$ 651,949</u>

Listing of Non-Major Proprietary Funds

Enterprise Funds

Enterprise funds may be used to report any activity for which a fee for goods or services is charged external users. Enterprise funds are (1) required for any activity that operates under laws or regulations that its costs be recovered with fees and charges, rather than with taxes or similar revenues, (2) required for any activity for which management establishes fees, pursuant to its pricing policy, designed to recover its costs of providing services, and (3) required for activity that is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity:

Workers' Compensation
Lottery
Intergovernmental Transfer Program
Communication Systems Revolving Fund
Transportation Revolving Fund

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Combining Statement of Net Assets - Nonmajor Proprietary Funds

June 30, 2006

(expressed in thousands)

	Business-Type Activities					
	Workers Compensa- tion	Lottery	Intergovern- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 3,465	\$ 9,962	\$ 1,310	\$ 15,330	\$ 964	\$ 31,031
Investments	0	0	0	6,526	0	6,526
Receivables,net	0	7,937	0	3,021	13	10,971
Inventories	0	1,681	0	0	0	1,681
Total current assets	<u>3,465</u>	<u>19,580</u>	<u>1,310</u>	<u>24,877</u>	<u>977</u>	<u>50,209</u>
Noncurrent assets:						
Investments	0	0	0	10,134	0	10,134
Receivables,net:	0	0	0	23,476	0	23,476
Restricted cash and cash equivalents	0	0	0	1,748	0	1,748
Advances to other funds	4,000	0	0	0	0	4,000
Capital assets (net of accumulated depreciation)	0	280	0	0	108	388
Other noncurrent assets	0	0	0	353	0	353
Total noncurrent assets	<u>4,000</u>	<u>280</u>	<u>0</u>	<u>35,711</u>	<u>108</u>	<u>40,099</u>
Total assets	<u>\$ 7,465</u>	<u>\$ 19,860</u>	<u>\$ 1,310</u>	<u>\$ 60,588</u>	<u>\$ 1,085</u>	<u>\$ 90,308</u>
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	\$ 338	\$ 6,486	\$ 0	\$ 348	\$ 0	\$ 7,172
Due to other funds	0	5,755	0	0	0	5,755
Short-term compensated absences	6	0	0	0	0	6
Short-term portion of long-term liabilities	4,665	0	0	200	0	4,865
Total current liabilities	<u>5,009</u>	<u>12,241</u>	<u>0</u>	<u>548</u>	<u>0</u>	<u>17,798</u>
Noncurrent liabilities:						
Compensated absences	1	0	0	0	0	1
Claims and judgements	26,306	0	0	0	0	26,306
Bonds, notes and loans payable	0	0	0	33,438	0	33,438
Total noncurrent liabilities	<u>26,307</u>	<u>0</u>	<u>0</u>	<u>33,438</u>	<u>0</u>	<u>59,745</u>
Total liabilities	<u>31,316</u>	<u>12,241</u>	<u>0</u>	<u>33,986</u>	<u>0</u>	<u>77,543</u>
NET ASSETS						
Invested in capital assets, net of related debt	0	280	0	0	108	388
Restricted for:						
Debt service	0	0	0	16,894	0	16,894
Other purposes	(23,851)	0	0	0	0	(23,851)
Unrestricted	0	7,339	1,310	9,708	977	19,334
Total net assets	<u>(23,851)</u>	<u>7,619</u>	<u>1,310</u>	<u>26,602</u>	<u>1,085</u>	<u>12,765</u>
Total liabilities and net assets	<u>\$ 7,465</u>	<u>\$ 19,860</u>	<u>\$ 1,310</u>	<u>\$ 60,588</u>	<u>\$ 1,085</u>	<u>\$ 90,308</u>

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Nonmajor Proprietary Funds**

For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	Business-Type Activities					
	Workers Compensa- tion	Lottery	Intergovern- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	Totals
Operating revenues:						
Charges for services	\$ 1,182	\$ 237,270	\$ 133	\$ 40	\$ 30	\$ 238,655
Other revenue	29	14	2,439	577	0	3,059
Total operating revenues	<u>1,211</u>	<u>237,284</u>	<u>2,572</u>	<u>617</u>	<u>30</u>	<u>241,714</u>
Operating expenses:						
Personal services	225	4,313	0	0	0	4,538
Supplies and services	1,797	32,128	5	14	17	33,961
Lottery prize awards	0	131,005	0	0	0	131,005
Depreciation	0	176	0	0	7	183
Insurance claims and expenses	1,961	0	0	0	0	1,961
Other expenses	906	0	1,079	0	0	1,985
Total operating expenses	<u>4,889</u>	<u>167,622</u>	<u>1,084</u>	<u>14</u>	<u>24</u>	<u>173,633</u>
Operating income (loss)	<u>(3,678)</u>	<u>69,662</u>	<u>1,488</u>	<u>603</u>	<u>6</u>	<u>68,081</u>
Nonoperating revenues (expenses):						
Investment earnings	0	0	0	1,499	14	1,513
Interest expense	0	0	0	(1,107)	0	(1,107)
Total nonoperating revenues (expenses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>392</u>	<u>14</u>	<u>406</u>
Net income (loss)	<u>(3,678)</u>	<u>69,662</u>	<u>1,488</u>	<u>995</u>	<u>20</u>	<u>68,487</u>
Transfers in	11	(67,089)	(1,522)	0	1,540	(67,060)
Transfers out	(2)	0	0	0	0	(2)
Net change in net assets	<u>(3,669)</u>	<u>2,573</u>	<u>(34)</u>	<u>995</u>	<u>1,560</u>	<u>1,425</u>
Total net assets - beginning	(20,182)	4,545	1,344	0	0	(14,293)
Revisions to beginning net assets	0	501	0	25,607	(475)	25,633
Total net assets - beginning (restated)	<u>(20,182)</u>	<u>5,046</u>	<u>1,344</u>	<u>25,607</u>	<u>(475)</u>	<u>11,340</u>
Total net assets - ending	<u>\$ (23,851)</u>	<u>\$ 7,619</u>	<u>\$ 1,310</u>	<u>\$ 26,602</u>	<u>\$ 1,085</u>	<u>\$ 12,765</u>

Internal Service Funds

Internal Service Funds are used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis:

Printing
Accounting Services
Motor Pool
Information Technology
Aircraft
Building Maintenance
Architectural Services
State Workers' Compensation
Capitol Security
Osawatomie Motor Pool
Wildlife Aircraft
Personnel Services

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas

Combining Statement of Net Assets - Internal Service Funds

June 30, 2006

(expressed in thousands)

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,519	\$ 2,782	\$ 335	\$ 6,612	\$ 44	\$ 6,229
Inventories	0	0	0	379	0	0
Total current assets	<u>2,519</u>	<u>2,782</u>	<u>335</u>	<u>6,991</u>	<u>44</u>	<u>6,229</u>
Noncurrent assets:						
Advances to other funds	4	4	1	11	0	7
Capital assets (net of accumulated depreciation)	1,557	3	1,023	9,917	0	78,762
Total noncurrent assets	<u>1,561</u>	<u>7</u>	<u>1,024</u>	<u>9,928</u>	<u>0</u>	<u>78,769</u>
Total assets	<u>\$ 4,080</u>	<u>\$ 2,789</u>	<u>\$ 1,359</u>	<u>\$ 16,919</u>	<u>\$ 44</u>	<u>\$ 84,998</u>
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	\$ 561	\$ 163	\$ 73	\$ 2,692	\$ 12	\$ 1,139
Due to other funds	0	0	9	1,353	0	86
Short-term compensated absences	104	236	4	591	0	262
Short-term portion of long-term liabilities	177	35,150	0	0	0	1,751
Total current liabilities	<u>842</u>	<u>35,549</u>	<u>86</u>	<u>4,636</u>	<u>12</u>	<u>3,238</u>
Noncurrent liabilities:						
Compensated absences	13	30	0	76	0	34
Claims and judgements	0	305	0	0	0	0
Bonds, notes and loans payable	723	0	0	0	0	62,914
Advances from other funds	0	0	29	1,306	0	462
Total noncurrent liabilities	<u>736</u>	<u>335</u>	<u>29</u>	<u>1,382</u>	<u>0</u>	<u>63,410</u>
Total liabilities	<u>1,578</u>	<u>35,884</u>	<u>115</u>	<u>6,018</u>	<u>12</u>	<u>66,648</u>
NET ASSETS						
Invested in capital assets, net of related debt	657	3	1,023	9,917	0	14,097
Unrestricted	1,845	(33,098)	221	984	32	4,253
Total net assets	<u>2,502</u>	<u>(33,095)</u>	<u>1,244</u>	<u>10,901</u>	<u>32</u>	<u>18,350</u>
Total liabilities and net assets	<u>\$ 4,080</u>	<u>\$ 2,789</u>	<u>\$ 1,359</u>	<u>\$ 16,919</u>	<u>\$ 44</u>	<u>\$ 84,998</u>

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas

Combining Statement of Net Assets - Internal Service Funds - Concluded

June 30, 2006

(expressed in thousands)

	Architectural Services	State Workers Compensation	Capitol Security	Osawatomie Motor Pool	Wildlife Aircraft	Personnel Services	Totals
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 105	\$ 8,486	\$ 70	\$ 8	\$ 66	\$ 129	\$ 27,385
Inventories	0	0	0	0	0	0	379
Total current assets	105	8,486	70	8	66	129	27,764
Noncurrent assets:							
Advances to other funds	1	1	0	0	0	0	29
Capital assets (net of accumulated depreciation)	15	4	0	0	0	0	91,281
Total noncurrent assets	16	5	0	0	0	0	91,310
Total assets	\$ 121	\$ 8,491	\$ 70	\$ 8	\$ 66	\$ 129	\$ 119,074
LIABILITIES							
Current liabilities:							
Accounts payable and other liabilities	\$ 65	\$ 1,741	\$ 61	\$ 7	\$ 0	\$ 8	\$ 6,522
Due to other funds	0	0	0	0	0	0	1,448
Short-term compensated absences	62	37	0	0	0	1	1,297
Short-term portion of long-term liabilities	0	11,711	0	0	0	0	48,789
Total current liabilities	127	13,489	61	7	0	9	58,056
Noncurrent liabilities:							
Compensated absences	8	5	0	0	0	0	166
Claims and judgements	0	20,868	0	0	0	0	21,173
Bonds, notes and loans payable	0	0	0	0	0	0	63,637
Advances from other funds	0	0	0	0	0	0	1,797
Total noncurrent liabilities	8	20,873	0	0	0	0	86,773
Total liabilities	135	34,362	61	7	0	9	144,829
NET ASSETS							
Invested in capital assets, net of related debt	15	4	0	0	0	0	25,716
Unrestricted	(29)	(25,875)	9	1	66	120	(51,471)
Total net assets	(14)	(25,871)	9	1	66	120	(25,755)
Total liabilities and net assets	\$ 121	\$ 8,491	\$ 70	\$ 8	\$ 66	\$ 129	\$ 119,074

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Internal Service Funds**

For the Fiscal Year Ended June 30, 2006

(expressed in thousands)

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
Operating revenues:						
Charges for services	\$ 5,848	\$ 2,877	\$ 809	\$ 34,341	\$ 173	\$ 26,460
Other revenue	(1)	(7,785)	1,592	26	1	572
Total operating revenues	<u>5,847</u>	<u>(4,908)</u>	<u>2,401</u>	<u>34,367</u>	<u>174</u>	<u>27,032</u>
Operating expenses:						
Salaries and wages	2,516	3,900	47	10,192	0	5,928
Supplies and services	3,415	707	1,079	23,972	191	5,615
Depreciation	58	2	418	2,588	0	1,538
Insurance claims and expenses	0	0	0	0	0	0
Other expenses	0	0	86	0	0	11
Total operating expenses	<u>5,989</u>	<u>4,609</u>	<u>1,630</u>	<u>36,752</u>	<u>191</u>	<u>13,092</u>
Operating income (loss)	<u>(142)</u>	<u>(9,517)</u>	<u>771</u>	<u>(2,385)</u>	<u>(17)</u>	<u>13,940</u>
Nonoperating revenues (expenses):						
Interest expense	(8)	0	0	1	0	(3,232)
Total nonoperating revenues (expenses)	<u>(8)</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>(3,232)</u>
Net income (loss)	(150)	(9,517)	771	(2,384)	(17)	10,708
Transfers in	0	1,629	(1,468)	0	0	(175)
Transfers out	(266)	0	0	(329)	0	(4,182)
Net change in net assets	<u>(416)</u>	<u>(7,888)</u>	<u>(697)</u>	<u>(2,713)</u>	<u>(17)</u>	<u>6,351</u>
Total net assets - beginning	2,918	(25,207)	1,941	13,235	49	11,999
Revisions to beginning net assets	0	0	0	379	0	0
Total net assets - beginning (restated)	<u>2,918</u>	<u>(25,207)</u>	<u>1,941</u>	<u>13,614</u>	<u>49</u>	<u>11,999</u>
Total net assets - ending	<u>\$ 2,502</u>	<u>\$ (33,095)</u>	<u>\$ 1,244</u>	<u>\$ 10,901</u>	<u>\$ 32</u>	<u>\$ 18,350</u>

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Internal Service Funds - Concluded
For the Fiscal Year Ended June 30, 2006**

(expressed in thousands)

	Architectural Services	State Workers Compensation	Capitol Security	Osawatomie Motor Pool	Wildlife Aircraft	Personnel Services	Totals
Operating revenues:							
Charges for services	\$ 1,112	\$ 19,814	\$ 146	\$ 20	\$ 59	\$ 151	\$ 91,810
Other revenue	30	(5,147)	65	0	0	0	(10,647)
Total operating revenues	<u>1,142</u>	<u>14,667</u>	<u>211</u>	<u>20</u>	<u>59</u>	<u>151</u>	<u>81,163</u>
Operating expenses:							
Salaries and wages	1,167	1,314	(86)	0	0	164	25,142
Supplies and services	86	1,196	161	22	1	5	36,450
Depreciation	7	1	0	0	0	0	4,612
Insurance claims and expenses	0	16,660	0	0	0	0	16,660
Other expenses	0	0	0	0	0	0	97
Total operating expenses	<u>1,260</u>	<u>19,171</u>	<u>75</u>	<u>22</u>	<u>1</u>	<u>169</u>	<u>82,961</u>
Operating income (loss)	<u>(118)</u>	<u>(4,504)</u>	<u>136</u>	<u>(2)</u>	<u>58</u>	<u>(18)</u>	<u>(1,798)</u>
Nonoperating revenues (expenses):							
Interest expense	0	0	0	0	0	0	(3,239)
Total nonoperating revenues (expenses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,239)</u>
Net income (loss)	<u>(118)</u>	<u>(4,504)</u>	<u>136</u>	<u>(2)</u>	<u>58</u>	<u>(18)</u>	<u>(5,037)</u>
Transfers in	0	0	0	0	0	0	(14)
Transfers out	0	(44)	0	0	0	0	(4,821)
Net change in net assets	<u>(118)</u>	<u>(4,548)</u>	<u>136</u>	<u>(2)</u>	<u>58</u>	<u>(18)</u>	<u>(9,872)</u>
Total net assets - beginning	104	(21,323)	(127)	3	8	138	(16,262)
Revisions to beginning net assets	0	0	0	0	0	0	379
Total net assets - beginning (restated)	<u>104</u>	<u>(21,323)</u>	<u>(127)</u>	<u>3</u>	<u>8</u>	<u>138</u>	<u>(15,883)</u>
Total net assets - ending	<u>\$ (14)</u>	<u>\$ (25,871)</u>	<u>\$ 9</u>	<u>\$ 1</u>	<u>\$ 66</u>	<u>\$ 120</u>	<u>\$ (25,755)</u>

Listing of Component Units

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable:

Kansas Development Finance Authority
Kansas Technology Enterprise Corporation
Kansas Housing Resources Corporation
State University System

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas

Combining Statement of Net Assets - Component Units

June 30, 2006

(expressed in thousands)

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	State University System	Totals
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 598	\$ 3,032	\$ 5,541	\$ 384,260	\$ 393,431
Investments	2,394	0	0	1,463,890	1,466,284
Receivables, net	98	2,085	1,462	184,352	187,997
Due from primary government	15,625	0	0	0	15,625
Inventories	0	0	0	12,890	12,890
Other assets	89	0	1,097	68,548	69,734
Total current assets	<u>18,804</u>	<u>5,117</u>	<u>8,100</u>	<u>2,113,940</u>	<u>2,145,961</u>
Noncurrent assets:					
Investments	2,144	8,081	0	372,754	382,979
Receivables, net:	30	723	1,003	66,416	68,172
Restricted cash and cash equivalents	0	0	325	55,705	56,030
Restricted investments	2,474	0	0	97,524	99,998
Due from primary government	233,190	0	0	0	233,190
Capital assets (net of accumulated depreciation)	53	144	249	1,451,601	1,452,047
Other noncurrent assets	0	0	0	63,466	63,466
Total noncurrent assets	<u>237,891</u>	<u>8,948</u>	<u>1,577</u>	<u>2,107,466</u>	<u>2,355,882</u>
Total assets	<u>\$ 256,695</u>	<u>\$ 14,065</u>	<u>\$ 9,677</u>	<u>\$ 4,221,406</u>	<u>\$ 4,501,843</u>
LIABILITIES					
Current liabilities:					
Accounts payable and other liabilities	\$ 86	\$ 669	\$ 1,551	\$ 290,412	\$ 292,718
Deferred revenue	328	284	26	89,672	90,310
Short-term compensated absences	0	0	81	44,489	44,570
Short-term portion of long-term liabilities	15,625	0	0	41,757	57,382
Total current liabilities	<u>16,039</u>	<u>953</u>	<u>1,658</u>	<u>466,330</u>	<u>484,980</u>
Noncurrent liabilities:					
Compensated absences	0	0	0	5,085	5,085
Bonds, notes and loans payable	233,190	0	44	565,263	798,497
Other noncurrent liabilities	2,146	0	0	51,520	53,666
Total noncurrent liabilities	<u>235,336</u>	<u>0</u>	<u>44</u>	<u>621,868</u>	<u>857,248</u>
Total liabilities	<u>251,375</u>	<u>953</u>	<u>1,702</u>	<u>1,088,198</u>	<u>1,342,228</u>
NET ASSETS					
Invested in capital assets, net of related debt	53	144	249	949,483	949,929
Restricted for:					
Capital projects	0	0	0	71,654	71,654
Debt service	0	0	0	28,828	28,828
Other purposes	0	816	87	1,753,208	1,754,111
Unrestricted	5,267	12,152	7,639	330,035	355,093
Total net assets	<u>\$ 5,320</u>	<u>\$ 13,112</u>	<u>\$ 7,975</u>	<u>\$ 3,133,208</u>	<u>\$ 3,159,615</u>

State of Kansas
Other Supplementary Information
June 30, 2006

State of Kansas
Combining Statement of Activities-Component Units
For the Fiscal Year Ended June 30, 2006
(expressed in thousands)

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	State University System	Totals
Expenses:					
Salaries and wages	\$ 788	\$ 1,318	\$ 2,122	\$ 471,000	\$ 475,228
Supplies and services	435	4,410	1,049	592,464	598,358
Depreciation	44	68	38	77,756	77,906
Interest expense	0	0	0	20,538	20,538
Other expenses	58	8,049	64,681	485,965	558,753
Total expenses	<u>1,325</u>	<u>13,845</u>	<u>67,890</u>	<u>1,647,723</u>	<u>1,730,783</u>
Program Revenues:					
Charges for services	1,854	310	3,957	1,199,382	1,205,503
Operating grants	0	13,514	1,304	318,803	333,621
Capital grants	0	0	0	368	368
Total program revenues	<u>1,854</u>	<u>13,824</u>	<u>5,261</u>	<u>1,518,553</u>	<u>1,539,492</u>
Net (Expense) Revenue	<u>529</u>	<u>(21)</u>	<u>(62,629)</u>	<u>(129,170)</u>	<u>(191,291)</u>
General Revenue:					
Taxes:					
Sales and excise tax	0	0	0	1	1
Gross receipts tax	0	0	0	907	907
Investment earnings	249	120	0	76,432	76,801
Other revenue	0	884	63,498	385,645	450,027
Transfers	0	0	0	0	0
Total general revenues	<u>249</u>	<u>1,004</u>	<u>63,498</u>	<u>462,985</u>	<u>527,736</u>
Change in net assets	<u>778</u>	<u>983</u>	<u>869</u>	<u>333,815</u>	<u>336,445</u>
Total net assets - beginning	4,542	12,129	7,711	2,851,372	2,875,754
Revisions to beginning net assets	0	0	(605)	(51,979)	(52,584)
Total net assets - beginning (restated)	<u>4,542</u>	<u>12,129</u>	<u>7,106</u>	<u>2,799,393</u>	<u>2,823,170</u>
Total net assets - ending	<u>\$ 5,320</u>	<u>\$ 13,112</u>	<u>\$ 7,975</u>	<u>\$ 3,133,208</u>	<u>\$ 3,159,615</u>

**STATISTICAL
SECTION**

State of Kansas
Statistical Section
June 30, 2006

Financial Trends
Net Assets by Fund Type
Last Five Fiscal Years
(expressed in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities					
Invested in capital assets net of related debt	\$ 7,494,576	\$ 7,758,504	\$ 7,855,107	\$ 8,435,125	\$ 8,144,626
Restricted	60,207	118,013	142,188	89,640	97,386
Unrestricted	1,583,141	1,194,510	831,722	762,257	1,309,066
Total governmental activities net assets	<u>\$ 9,137,924</u>	<u>\$ 9,071,027</u>	<u>\$ 8,829,017</u>	<u>\$ 9,287,022</u>	<u>\$ 9,551,078</u>
Business-type activities ¹					
Invested in capital assets, net of related debt	\$ 714,933	\$ 844,948	\$ 479	\$ 247	\$ 391
Restricted	513,119	844,360	589,332	766,234	950,950
Unrestricted	406,782	(10,780)	57,317	5,642	20,041
Total business-type activities net assets	<u>\$ 1,634,834</u>	<u>\$ 1,678,528</u>	<u>\$ 647,128</u>	<u>\$ 772,123</u>	<u>\$ 971,382</u>
Primary government					
Invested in capital assets net of related debt	\$ 8,209,509	\$ 8,603,452	\$ 7,855,586	\$ 8,435,372	\$ 8,145,017
Restricted	573,326	962,373	731,520	855,874	1,048,336
Unrestricted	1,989,923	1,183,730	889,039	767,899	1,329,107
Total primary government net assets	<u>\$ 10,772,758</u>	<u>\$ 10,749,555</u>	<u>\$ 9,476,145</u>	<u>\$ 10,059,145</u>	<u>\$ 10,552,460</u>

¹ In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State.

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Changes in Net Assets, Last Five Fiscal Years- Continued

(expressed in thousands)

	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government	\$ 561,006	\$ 419,040	\$ 1,615,560	\$ 1,215,280	\$ 975,416
Human resources	2,723,207	2,804,932	3,106,382	3,124,978	2,979,056
Education	2,662,380	3,125,520	3,201,981	3,393,376	4,378,010
Public safety	476,638	446,867	438,540	514,904	583,340
Agriculture and natural resources	90,948	92,466	88,870	93,528	98,116
Highways and other transportation	860,035	798,083	777,697	679,952	893,582
Health and environment	166,038	174,249	176,436	189,908	197,884
Economic development	0	0	0	3,293	3,780
Total governmental activities expenses	7,540,252	7,861,157	9,405,466	9,215,219	10,109,184
Business-type activities: ¹					
Water pollution and safety	42,370	22,489	28,975	30,499	33,995
Health care stabilization	27,588	34,955	33,874	39,897	32,500
Employment security	341,587	487,610	468,413	280,644	253,055
Workers' compensation	(856)	(38,177)	2,842	2,273	4,888
Lottery	132,284	140,103	154,774	145,496	167,623
Universities	1,857,220	1,749,824	0	0	0
Intergovernmental transfer program	94,823	35,953	1,210	9,287	1,084
Transportation revolving loans	0	0	0	0	1,145
Total business-type activities expenses	2,495,016	2,432,757	690,088 ¹	508,096	494,290
Total primary government expenses	\$ 10,035,268	\$ 10,293,914	\$ 10,095,554	\$ 9,723,315	\$ 10,603,474

¹ In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State.

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Changes in Net Assets, Last Five Fiscal Years - Concluded

(expressed in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Program Revenues					
Governmental activities:					
General government	\$ 225,970	\$ 283,224	\$ 298,640	\$ 320,129	\$ 274,969
Human resources	1,723,828	1,782,338	1,982,802	1,861,855	2,090,961
Education	295,077	322,565	359,415	386,369	390,180
Public safety	111,009	85,705	79,468	126,632	149,638
Agriculture and natural resources	52,315	55,648	58,116	65,012	63,533
Highways and other transportation	583,663	588,536	493,479	563,126	586,235
Health and environment	99,249	119,147	130,810	131,568	129,227
Economic development	0	0	0	0	0
Total governmental activities revenues	<u>3,091,111</u>	<u>3,237,163</u>	<u>3,402,730</u>	<u>3,454,691</u>	<u>3,684,743</u>
Business-type activities ¹					
Water pollution and safety	35,799	23,769	50,634	44,542	42,992
Health care stabilization	27,684	26,201	22,236	21,244	27,402
Employment security	318,187	352,282	370,895	348,021	349,919
Workers' compensation	468	871	3,859	3,464	1,182
Lottery	191,064	203,939	225,457	207,772	237,270
Universities	800,899	1,026,479	0	0	0
Intergovernmental transfer program	0	67	191	167	133
Transportation revolving loans	0	0	0	0	70
Total business-type activities revenues	<u>1,374,101</u>	<u>1,633,608</u>	<u>673,272</u>	<u>625,210</u>	<u>658,968</u>
Total primary government revenues	<u>\$ 4,465,212</u>	<u>\$ 4,870,771</u>	<u>\$ 4,076,002</u>	<u>\$ 4,079,901</u>	<u>\$ 4,343,711</u>
 Net (Expense) Revenue					
Government activities	\$ (4,449,141)	\$ (4,623,994)	\$ (6,002,736)	\$ (5,760,528)	\$ (6,424,441)
Business-type activities	<u>(1,120,915)</u>	<u>(799,149)</u>	<u>(16,816)</u>	<u>117,114</u>	<u>164,678</u>
Total primary net (expense) revenue	<u>\$ (5,570,056)</u>	<u>\$ (5,423,143)</u>	<u>\$ (6,019,552)</u>	<u>\$ (5,643,414)</u>	<u>\$ (6,259,763)</u>

¹ In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State.

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Revenues and Other Changes in Net Assets

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities:					
Taxes					
Property tax	\$ 54,535	\$ 446,611	\$ 648,604	\$ 666,698	\$ 548,725
Income and inheritance tax	2,010,550	1,936,916	2,104,072	2,385,369	2,866,019
Sales and excise tax	2,248,760	2,496,744	2,510,227	2,660,026	2,789,933
Gross receipts tax	103,825	115,282	127,953	127,336	132,928
Investment earnings	37,369	13,422	11,437	26,401	61,617
Other revenue	208,732	150,857	232,168	275,320	244,009
Extraordinary items	0	45,710	0	0	0
Transfers	(570,470)	(606,944)	68,294	77,383	66,868
Total governmental activities revenues	<u>\$ 4,093,301</u>	<u>\$ 4,598,598</u>	<u>\$ 5,702,755</u>	<u>\$ 6,218,533</u>	<u>\$ 6,710,099</u>
Business-type activities ¹					
Investment earnings	(159)	(636)	28,290	29,507	37,446
Other revenue	582,437	204,634	28,024	55,757	35,972
Transfers	570,470	606,944	(68,294)	(77,383)	(66,868)
Total business-type activities revenues	<u>1,152,748</u>	<u>810,942</u>	<u>(11,980)</u>	<u>7,881</u>	<u>6,550</u>
Total primary government revenues	<u><u>\$ 5,246,049</u></u>	<u><u>\$ 5,409,540</u></u>	<u><u>\$ 5,690,775</u></u>	<u><u>\$ 6,226,414</u></u>	<u><u>\$ 6,716,649</u></u>
 Change in Net Assets					
Governmental activities	\$ (355,840)	\$ (25,396)	\$ (299,981)	\$ 458,005	\$ 285,658
Business-type activities	<u>31,833</u>	<u>11,793</u>	<u>(28,796)</u>	<u>124,995</u>	<u>171,228</u>
Total primary government	<u><u>\$ (324,007)</u></u>	<u><u>\$ (13,603)</u></u>	<u><u>\$ (328,777)</u></u>	<u><u>\$ 583,000</u></u>	<u><u>\$ 456,886</u></u>

¹ In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State.

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Financial Trends

Fund Balances, Governmental Funds

Last Five Fiscal Years

(expressed in thousands)

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund					
Reserved	\$ 22,837	\$ 19,255	\$ 18,789	\$ 15,674	\$ 22,386
Unreserved	60,595	(53,782)	115,150	297,059	649,526
Total general fund	<u>\$ 83,432</u>	<u>\$ (34,527)</u>	<u>\$ 133,939</u>	<u>\$ 312,733</u>	<u>\$ 671,912</u>
Social and Rehabilitation Fund					
Reserved	\$ 20,445	\$ 15,762	\$ 15,763	\$ 19,413	\$ 18,125
Unreserved	(3,628)	4,961	45,747	70,426	45,558
Total social and rehabilitation fund	<u>\$ 16,817</u>	<u>\$ 20,723</u>	<u>\$ 61,510</u>	<u>\$ 89,839</u>	<u>\$ 63,683</u>
Transportation Fund					
Reserved	\$ 732,505	\$ 971,806	\$ 1,011,621	\$ 942,114	\$ 962,147
Unreserved	183,896	(178,882)	(295,037)	(168,173)	(243,585)
Total Transportation Fund	<u>\$ 916,401</u>	<u>\$ 792,924</u>	<u>\$ 716,584</u>	<u>\$ 773,941</u>	<u>\$ 718,562</u>
Transportation - Capital Projects Fund					
Reserved	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved	(200,000)	(608,115)	(608,115)	(755,115)	(755,115)
Total Transportation - Capital Projects Fund	<u>\$ (200,000)</u>	<u>\$ (608,115)</u>	<u>\$ (608,115)</u>	<u>\$ (755,115)</u>	<u>\$ (755,115)</u>
Health Policy Authority					
Reserved	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,152
Unreserved	0	0	0	0	4,917
Total Health Policy Authority Fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,069</u>
All Other Governmental Funds					
Reserved reported in:					
Reserved for debt service	\$ 46,819	\$ 74,631	\$ 112,572	\$ 76,143	\$ 13,489
Reserved for encumbrances	147,834	163,830	167,582	155,113	149,569
Reserved for advances to other funds	0	60,164	79,888	79,215	86,002
Unreserved	285,994	204,844	324,311	353,789	402,889
Total all other governmental funds	<u>\$ 480,647</u>	<u>\$ 503,469</u>	<u>\$ 684,353</u>	<u>\$ 664,260</u>	<u>\$ 651,949</u>

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Financial Trends
Changes in Fund Balances, Governmental Funds
Last Five Fiscal Years

	2002	2003	2004	2005	2006
Revenues					
Taxes	\$ 4,392,768	\$ 4,988,981	\$ 5,455,211	\$ 5,827,740	\$ 6,378,200
Charges for services	449,109	531,949	746,995	554,851	655,564
Intergovernmental (operating and capital grants)	2,657,395	2,730,334	2,697,149	2,910,532	3,042,060
Investment earnings	37,442	13,636	11,473	26,411	61,625
Other revenues (includes extraordinary items)	177,028	161,081	309,115	283,470	263,737
Total revenues	<u>7,713,742</u>	<u>8,425,981</u>	<u>9,219,943</u>	<u>9,603,004</u>	<u>10,401,186</u>
Expenditures					
General government	582,613	542,359	1,699,154	1,274,908	999,533
Human resources	2,727,508	2,805,640	3,111,624	3,125,941	2,982,450
Education	2,664,448	3,128,229	3,206,817	3,396,304	4,380,427
Public safety	482,523	467,663	451,511	507,215	577,042
Agriculture and natural resources	91,302	91,034	89,161	91,512	96,026
Highways and other transportation	920,930	898,645	1,018,471	1,026,447	1,027,094
Health and environment	166,504	175,636	186,653	190,761	199,016
Economic Development	0	0	0	3,293	3,780
Debt service					
Interest	83,511	82,351	82,589	139,062	93,570
Principal	73,861	92,026	73,448	85,347	142,316
Total expenditures	<u>7,793,200</u>	<u>8,283,583</u>	<u>9,919,428</u>	<u>9,840,790</u>	<u>10,501,254</u>
Excess of revenues over (under) expenditures	(79,458)	142,398	(699,485)	(237,786)	(100,068)
Other Financing Sources (Uses)					
Proceeds from sale of debt	164,740	383,863	1,321,417	257,125	532,422
Transfers, net	(573,043)	(612,542)	77,220	84,732	37,830
Other financing sources (uses)	(33,202)	(646,970)	(442,781)	(1,956)	(177,402)
Extraordinary items	0	45,710	0	0	0
Total other financing sources (uses)	<u>(441,505)</u>	<u>(829,939)</u>	<u>955,856</u>	<u>339,901</u>	<u>392,850</u>
Net change in fund balances	<u>\$ (520,963)</u>	<u>\$ (687,541)</u>	<u>\$ 256,371</u>	<u>\$ 102,115</u>	<u>\$ 292,782</u>
Debt service as percent of noncapital expenditures	2.02%	2.11%	1.57%	2.28%	2.25%

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Revenue Capacity

Personal Income by Industry, Last Four Calendar Years

(expressed in thousands)

	Calendar Year			
	2005	2004	2003	2002
Private earnings				
Agricultural, Forestry, Fishing and Hunting	\$ 274,282	\$ 246,531	\$ 234,197	\$ 225,385
Mining	334,785	297,423	258,863	239,175
Utilities	470,716	447,555	417,118	458,895
Construction	2,340,411	2,191,195	2,146,095	2,148,774
Manufacturing	7,945,230	7,595,481	7,086,315	7,342,983
Wholesale trade	2,896,852	2,744,533	2,560,018	2,591,635
Retail trade	3,171,601	3,148,190	3,076,603	3,067,753
Transportation and warehousing	1,383,153	1,341,004	1,301,591	1,254,987
Information	2,239,812	2,333,795	2,377,894	2,377,406
Finance and insurance	2,672,193	2,570,581	2,496,487	2,316,861
Real estate and rental and leasing	449,442	423,344	403,881	390,838
Professional and technical services	2,618,781	2,433,879	2,218,958	2,201,309
Management of companies and enterprises	619,546	541,626	559,692	582,100
Administrative and waste services	1,817,299	1,586,544	1,495,481	1,488,925
Educational services	311,096	268,736	258,073	250,796
Health care and social assistance	4,847,572	4,630,711	4,372,455	4,087,380
Arts, entertainment and recreation	172,546	204,788	188,321	186,776
Accommodation and food services	1,173,395	1,121,987	1,062,821	1,038,811
Other services except public administration	848,961	831,848	832,349	815,995
Government				
Local	4,649,866	4,465,593	4,319,493	4,360,504
State	1,649,777	1,681,140	1,525,811	1,525,884
Federal	1,339,079	1,346,249	1,258,009	1,228,217

Source: Kansas Department of Labor at <http://laborstats.hr.state.ks.us/industry>

¹ In 1996-2000 public utilities was combined with transportation wages.

² In 1996-2000 no amounts were recorded in these categories.

³ In 1996-2000 Finance, insurance and real estate were combined together.

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Debt Capacity
Long Term Debt Obligations
Last Five Years

(Expressed in thousands)

	2006	2005	2004	2003	2002
Government Activities					
Revenue bonds payable	\$ 2,764,949	\$ 1,748,407	\$ 2,164,339	\$ 1,374,622	\$ 1,448,399
Sales tax limited obligation	232,322	173,239	160,830	136,292	0
Note payable	20,448	22,391	22,549	25,899	24,249
Capital leases payable	152,483	159,781	161,801	152,539	122,121
Arbitrage rebate payable	93	388	385	677	93
Claims and judgements	68,033	54,642	49,396	42,816	40,310
Compensated absences	109,214	100,030	94,726	95,456	96,303
Total Governmental Activities	3,347,542	2,258,878	2,654,026	1,828,301	1,731,475
Business-Type Activities					
Revenue bonds payable	720,978	650,193	584,824	878,605	713,110
Note payable	0	0	0	56,163	58,052
Arbitrage rebate payable	963	2,003	3,123	4,538	5,342
Claims and judgements	186,871	187,474	185,909	297,372	337,200
Compensated absences	47	49	54	43,858	41,900
Other	12,961	11,392	(930)	0	2,800
Total business-type activities	921,820	851,111	772,980	1,280,536	1,158,404
Component Units					
Revenue bonds payable	691,253	726,535	619,409	306,540	253,975
Note payable	109,783	68,351	82,316	0	0
Capital leases payable	4,666	0	0	0	0
Arbitrage rebate payable	80	62	16	0	0
Compensated absences	49,655	47,919	44,887	0	0
Other	103,761	106,726	17,129	0	0
Total component units	959,198	949,593	763,757	306,540	253,975
Total	<u>\$ 5,228,560</u>	<u>\$ 4,059,582</u>	<u>\$ 4,190,763</u>	<u>\$ 3,415,377</u>	<u>\$ 3,143,854</u>

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Demographic and Economic Information
Kansas Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population⁽¹⁾	Per Capita Income⁽²⁾	Median Age⁽³⁾	Education Level in Years of Formal Schooling⁽⁴⁾	K to 12 Public School Enrollment⁽⁴⁾	Unemployment Rate⁽⁵⁾
1997	2,616,000	24,182	35.00	-	467,691	3.8%
1998	2,639,000	25,519	35.25	-	469,758	3.8%
1999	2,654,000	26,134	35.50	-	469,205	3.0%
2000	2,688,000	27,439	35.25	13.28	468,347	3.7%
2001	2,694,641	28,432	35.25	-	468,171	4.3%
2002	2,715,884	29,141	35.40	-	468,173	5.1%
2003	2,723,507	29,545	35.50	-	467,326	5.4%
2004	2,735,502	31,003	36.10	-	484,262	4.8%
2005	2,744,687	32,948	36.10	-	466,037	5.3%
2006	(6)	(6)	(6)	-	465,374	4.7%

Data Sources:

- ⁽¹⁾ U.S. Bureau of the Census Web Site: <http://www.census.gov>.
⁽²⁾ State Department of Commerce and U.S. Department of Commerce, BEA Web Sites: <http://kdoch.state.ks.us> and <http://www.bea.gov>
⁽³⁾ State Department of Health and Environment Web Site: <http://www.kdhe.state.ks.us>.
⁽⁴⁾ State Department of Education Web Site: <http://www.ksde.org> . The Source for education level in years of formal schooling came from 1990 and 2000 census reports issued by the U.S. Census Bureau. The school enrollment represents the head count as of September 20 of each year.
⁽⁵⁾ State Department of Labor, Kansas Labor Market Information Services Web Site: <http://laborstats.dol.ks.gov>.
⁽⁶⁾ Information is not available at this time.

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Demographic and Economic Information
Principal Employers in Kansas
Current Year and Six Years Ago

Employer	2006			2000		
	Local/Total Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Spirit Aerosystems Inc.	9,500 / 98,000	1	0.66%	-	-	-
Raytheon Aircraft Company	7,000 / 80,000	2	0.49%	8,100	4	0.57%
Via Christi Regional Med. Ctr.	4,000 / 11,000	3	0.28%	4,678	7	0.33%
Stormont-Vail Healthcare Inc.	3,748 / 4,778	4	0.26%	-	-	-
University of Kansas Hospital	2,750 / 2,750	5	0.19%	4,540	8	0.31%
Black & Veatch Corp.	2,392 / 6,304	6	0.17%	-	-	-
Koch Industries Incorporated	2,000 / 85,000	7	0.14%	-	-	-
Coleman Company Inc.	2,000 / 17,500	8	0.14%	-	-	-
Conspec Marketing & Manufacture	1,900 / 5,100	9	0.13%	-	-	-
Shawnee Mission Medical Center, Inc.	1,783 / 44,000	10	0.12%	-	-	-
Sprint/United Management Co.	-	-	-	23,197	1	1.63%
Boeing Company	-	-	-	15,300	2	1.08%
Cessna Aircraft Corporation	-	-	-	10,100	3	0.71%
IBP, Inc.	-	-	-	6,000	5	0.42%
Farmland Industries	-	-	-	5,850	6	0.41%
Southwestern Bell Telephone	-	-	-	4,500	9	0.32%
General Motor Corporation	-	-	-	4,200	10	0.29%
Total	37,073 / 354,432		2.58%	86,465		6.07%

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Operating Information
Full-time Equivalent State Government Employees by Function/Program
Last Nine Fiscal Years

<u>Function/Program</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Government	5,441	5,465	5,523	5,581	5,554	5,630	5,551	5,518	5,745
Public Safety	4,891	5,016	5,067	5,164	5,262	5,302	5,083	5,083	5,114
Education	18,000	18,261	18,349	16,359	16,387	16,392	16,452	15,901	15,562
Transportation	3,241	3,142	3,114	3,224	3,251	3,251	3,248	3,248	3,252
Agriculture and Natural Resources	1,407	1,291	1,298	1,357	1,355	1,384	1,286	1,281	1,287
Human Resources	10,324	9,437	8,894	8,978	8,828	8,925	8,729	8,426	8,189
Total	43,302	42,611	42,244	40,662	40,636	40,884	40,349	39,457	39,149

Source: Department of Administration Workforce Reports at <http://da.state.ks.us/ps/documents/workforce03.pdf>
Note: 2003 - 2006 is the number of positions authorized rather than actual number of employees.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Legislative Post Audit Committee
Kansas State Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (the State) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 30, 2006. We did not audit the financial statements of the various component units of the six state universities which represent 33 percent and 27 percent, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities aggregate discretely presented component units, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a



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direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the State of Kansas Legislative Post Audit committee, management, Federal awarding agencies and past-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Allen, Gibbs & Houlik, L.C.

December 30, 2006
Wichita, Kansas

Berberich Trahan & Co., P.A.

December 30, 2006
Topeka, Kansas